

ADMINISTRATION REPORT – 2007

Board of Directors

Valter Luiz Cardeal de Souza

Chairman

Alexandre Meira da Rosa

Luiz Paulo Fernandez Conde

Marcio Pereira Zimmermann

Ricardo de Gusmão Dornelles

Board of Executive Officers

Luiz Paulo Fernandez Conde

Chief Executive Officer

Carlos Agenor Magalhães da Trindade

Fabio Machado Resende

Henrique Mello de Moraes

Luiz Fernando Silva de Magalhães Couto

Mário Márcio Rogar

Supervisory Board

Titular Members

Fernando Swami Thomas Martins

Chairman

Guilherme Pereira Baggio

Marcelo Kalume Reis

Substitute Members

João Vicente Amato Torres

Ronaldo Sergio Monteiro Lourenço

Rafael Souza Pena

Message from the CEO

Fiscal year end 2007 made us sure that FURNAS installations more than consolidated its role as a strategic and necessary institution for the development of Brazil's economy.

In its 50th anniversary, the Company steered efforts toward entering into consortiums with the private sector in order to make feasible the hydroelectric projects of Santo Antônio, a 3,150 MW plant, and the 855 MW Foz do Chapecó, therefore leaving behind its long-standing history of operating exclusively in Southern and Midwestern Brazil. The installations currently under way on the Madeira river, which are part of a project for the sustainable development and integration of the Northern region, will foster agribusiness, eco tourism and the integration of fluvial systems and electric grids between Brazil, Bolívia and Peru.

Ibama granted the due operating license for Simplício Hydroelectric Power Plant, with a 333.7 MW of installed capacity, turning our forecasts into a feasible realm, along with the pending license for the 52.5 MW Batalha Hydroelectric Power Plant, both of which are wholly owned by FURNAS. Moreover, Retiro Baixo, Baguari and Serra do Facão Hydroelectric Power Plants, all of which are on a shared basis, and operated under the scope of a Special Purpose Entity, have started their construction works and are to aggregate 432 MW to the Country's installed capacity.

In terms of energy transmission, we should highlight the revamping and improvements to the energy systems in the states of Goiás, Mato Grosso, and the Federal District in order to streamline energy supply, which is all the more relevant for the performance and safety of the Brazilian Energy System. In the regions of Rio de Janeiro and Espírito Santo, special attention was given to the works associated to the integration of the additional energy supplied to the Brazilian Interconnected System by Santa Cruz Thermolectric Power Plant.

The year of 2007 therefore represented the dawn of a new era for FURNAS, as it constructed, simultaneously, seven hydroelectric power plants and three transmission lines, all of which will add an extra 4,800 MW worth of installed capacity to the Brazilian energy generation park and are of utmost importance for the Federal Government's Growth Acceleration Program (PAC). Such new installations are to generate energy for 10 million inhabitants, besides generating 30 thousand new direct jobs and investments exceeding R\$ 15 billion (or US\$ 7 billion). These hefty figures are in line with FURNAS long history, and testify the importance of our Company for Brazil and for its development.

We invested around R\$ 822.5 million in expansion programs and revamping generation and transmission units, among them the modernization of Luiz Carlos Barreto de Carvalho, Furnas and Marechal Mascarenhas de Moraes Hydroelectric Power Plant, all lying on the banks of Grande river, running for over 40 years.

The balanced results of our operations in economic, environmental and social terms now being made public reflect our Company's commitment to a sustainable development policy, reinforced by our direct involvement in programs and projects in several social mobilization initiatives, where companies and individuals partake. Acting as an agent for social development and change, and pursuing the safety of future generations, the Company makes a point at caring for the environment and for those communities lying in the vicinities of its installations. In 2007, 118 thousand social projects were undertaken, benefiting over 117 thousand people by generating jobs and social inclusion.

Since 1993, FURNAS has ensured an energy efficiency policy, both in supply and demand, well in line with the current challenge of generating sustainable energy with a view to economic development, energy safety and maintaining a sound approach to handling environmental issues. Nowadays the Company is increasing generation activities by diversifying its energy matrix, investing in alternative energy sources so as to start small-scale hydroelectric plants and biomass-running thermal generation units.

We would also like to mention that we have already initiated our Strategic Plan, with the due participation of our technical staff, which will be implementing this Plan during 2008-2012, on an ongoing basis, bringing in corporate values, and focusing on leadership, which has been FURNAS policy along the years.

We hereby reaffirm our commitment with our shareholders, clients, partners, and the community we service, and would like to thank the Federal Government, markedly Ministry of Mines and Energy and Eletrobrás, our parent company, for their continuous support, and also our employees for their commitment and dedication, and their contribution for the results conveyed in our Annual Report.

Luiz Paulo Fernandez Conde
Chief Executive Officer

Company Profile

FURNAS is a mix private/state owned company established on February 28, 1957, by Decree No. 41.066, which authorized the Company to build Brazil's first large hydroelectric power plant.

As a subsidiary of Eletrobrás, it received the mission of serving a multi-state market by constructing and operating electric power plants, as well as transmission systems in high and extra-high voltages connecting interstate systems and transmitting of energy produced by bi-national projects.

The Company is active in Southeastern and Midwestern Brazil, interconnecting eight states and the Federal District of Brasília, an area that houses half of the Brazilian population, which in turn responds for 63% of the Country's GDP. To meet this call, the Company relies on a generation capacity that comprises 11 hydroelectric power plants, out of which 8 in full ownership, 3 in cooperation with private investors – 2 in partnership and 1 through a Special Purpose Entity (*Sociedade de Propósito Específico* – SPE) – besides 2 conventional thermal power plants.

FURNAS transmission system encompasses 46 substations with a transforming capacity of 101,651 MVA, and a transmission grid of 19,278 km. Included therein are the circuits of Itaipu Transmission System, in 750 kV AC and \pm 600 kV DC, and other strategic links flowing energy to the Southern, Southeastern, Midwestern and Northern regions of the Country.

I – MANAGEMENT

COMPANY BUSINESS

Outlook of the Brazilian Economy and Market

In 2007, the Brazilian economy grew above all trends: it saw a 5.2% GDP increase, at market rates, and a 6.0% growth in industrial sector. The Federal Government practiced a steady policy of lowering the basic interest rate – Special System for Settlement and Custody (*Sistema Especial de Liquidação e de Custódia – Selic*) – following a slow descent, and stabilizing at 11.25% p.a. from September on. Unemployment rate, at 9.3%, was the lowest since 2002. The average real income of employed individuals rose by 2.3% in December over the same period of 2006. Inflation, at 4.46%, measured by Amplified Consumer Price Index (*Índice de Preços ao Consumidor Ampliado – IPCA*), lay well within the Government's goal.

Although the Brazilian currency increased *vis-à-vis* the US dollar in 2007, foreign trade performed well. Exports, at US\$ 161 billion, grew by 16.1%, while imports, at US\$ 121 billion, rose by 32% compared to 2006. Hence, the Trade Balance leveled at US\$ 40 billion, or a 13.8% downfall in relation to 2006. The heated global economy of the period triggered higher levels of basic product exports (by 27.6%), reflecting both a volume (12.1%) and price growth (14.6%). International reserves grew by 110%, from US\$ 85 billion in 2006 to US\$ 180 billion in 2007. Direct foreign inflows, in 2007, met US\$ 34.6 billion, versus US\$ 18.8 billion in 2006.

Electric Energy consumption, in 2007, improved by 5.4% over 2006, totaled 376.9 TWh, according to Energy Research Company (*Empresa de Pesquisa Energética – EPE*) data. It is worth mentioning that such improvement was the most representative one since the energy shortage of 2002. Commercial class, which holds a 16% stake of Brazilian energy consumption market, displayed the best performance, with a 6.6% growth, due to improved sales, and larger scale shipments, among others. Residential class, with a 24% stake of Brazilian market, rose by 6% over 2006. In 2007, 1.9 million residential units came into play, well above former periods, which was a direct consequence of the Light for Everybody Program, which provided electric energy for 500 thousand households all over Brazil. Industrial class, standing for 46% of the energy consumed in Brazil, upped 5%, reflecting an improvement of the production capacity.

Electricity consumption increased in all regions of the Country, markedly in the Midwest region, responsible for 6% of the total domestic consumption, which in turn had an expressive 6.9% growth. In the Northeast, which concentrates 17% of the Brazilian market, consumption rose by 6.2% due to the already mentioned new consumers brought in by the Light for Everybody Program. Northern Brazil, representing 6% of the domestic consumption, grew by 5.4% over 2006. The Southern region, with a 17% consumption, grew by 5.3%. The Southeastern region, which holds the largest stake (54%), upped consumption by 5%, with the largest contribution coming from the commercial class.

Overview of Company's Business

Business Expansion

Generation

The Company heads seven new generation installations that are part of Growth Acceleration Program (*Programa de Aceleração do Crescimento – PAC*), launched by the Federal Government, deemed of great importance to guarantee electric energy supply in Brazil.

The two installations listed below, FURNAS full ownership, presents the following features:

- Simplício Hydroelectric Power Plant (HPP), 305.7 MW, and Small-scale Hydroelectric Power Plant (PCH) Anta, 28 MW, are situated on the Paraíba do Sul river, on the border of Rio de Janeiro and Minas Gerais states. Simplício comprises three generating units, two forecast to start running in 2010 and one in 2011, while Anta counts on two generating units, to start running in 2010. Construction in both plants totals 15% of the full project;
- Batalha HPP (52.5 MW), lying on the São Marcos river, on the border of Minas Gerais and Goiás states, has two generating units to start running in 2010. Construction, yet to be started, is still pending installation licensing to be granted by environmental agencies.

Besides the installations listed above, others are being built in cooperation with third parties, under SPE associations, as shown below:

- Retiro Baixo HPP (82 MW), a partnership between FURNAS (49%) and *Orteng Equipamentos e Sistemas* (25.5%), *Logos Engenharia* (15.5%) and *Arcadis Logos Energia* (10%), dubbed SPE *Companhia Retiro Baixo Energética*. Lying on the Paraopeba river, in the state of Minas Gerais, will have two generating units, to start running in 2009, with 40% of the construction concluded;
- Baguari HPP (140 MW), a partnership between FURNAS (15%), *Neoenergia* (51%) and *Companhia Energética de Minas Gerais* (Cemig), dubbed SPE *Consórcio UHE Baguari*. Localized on Doce river, in the state of Minas Gerais, will have four generating units, of which two are to start running in 2009 and two in 2010, with 25% of construction concluded;
- Serra do Facão HPP (210 MW), a partnership between FURNAS (49.9%), and *Oliveira Trust Servicer* (50.1%), dubbed SPE *Serra do Facão Participações*, which has 49.5% over the shareholder's agreement between *Alcoa Alumínio* (35%), *DME Energética* (10%), and *Camargo Corrêa Energia* (5.5%) in SPE *Serra do Facão Energia*. Lying on São Marcos river, in the state of Goiás, it will have two generating units, to start running in 2010, with more than 20% of construction concluded;
- Foz do Chapecó (855 MW), a partnership between FURNAS (49.9%), with *Pentágono Trust* (50.1%), dubbed SPE *Chapecoense Geração*, which has 40% over the shareholder's agreement between *CPFL Geração de Energia* (51%) and *Companhia Estadual de Energia Elétrica* (CEEE) (9%) in SPE *Foz do Chapecó Energia*. Localized on Uruguai river, on the borders of the states of Santa Catarina and Rio Grande do Sul, it will have four generating units, three of which to start running in 2010, and the fourth one in 2011, with 20% of the construction concluded;

- Santo Antônio HPP (3,150 MW), a partnership between FURNAS (39%), *Fundo de Investimento em Participações Amazônia Energia* (20%), *Odebrecht Investimentos em Infra-Estrutura* (17.6%), *Andrade Gutierrez Participações* (12.4%), *Cemig Geração e Transmissão* (10%) and *Construtora Norberto Odebrecht* (1%) in SPE *Consórcio Madeira Energia*. Lying on the Madeira river, state of Rondônia, in the Amazon region, this HPP will have 44 generating units, to start running between 2012 and 2016. In December 2007, concession for the construction was obtained through an auction conducted by Brazilian Electricity Regulatory Agency (*Agência Nacional de Energia Elétrica – Aneel*).

Transmission

The installations listed below, which are also part of PAC, FURNAS full ownership, present the following features:

- Tijuco Preto – Itapeti and Itapeti – Nordeste Transmission Line (TL), both operating in 345 kV, total 50 km length, will interconnect Tijuco Preto Substation, in the state of São Paulo, and Itapeti and Nordeste Substations, under the ownership of *Companhia de Transmissão de Energia Elétrica Paulista* (CTEEP) in order to back and safeguard energy supply for the greater São Paulo region. Construction is still pending, waiting the due licensing on the part of environmental agencies;
- Macaé – Campos TL, third circuit, 345 kV, 92 km long, which is to back and safeguard energy supply for Northern Rio de Janeiro and Espírito Santo states. Construction is still pending, waiting the due licensing on the part of environmental agencies.

Besides the installations above mentioned, the construction of the transmission line below is under way, in cooperation with third parties, under SPE association, between FURNAS (49%) and Cemig (51%), bearing the following features:

- Furnas – Pimenta TL, 345 kV, 75 km long, localized in the state of Minas Gerais. Construction is still pending, waiting the due licensing on the part of environmental agencies.

Besides those installations scheduled under the PAC, FURNAS has also been authorized by Aneel to conduct the due revamping in its units:

- expansion of Viana Substation, in the state of Espírito Santo, and Brasília Geral Substation, in the state of Goiás, increasing their transformation capacity by 225 MVA and 60 MVA, respectively;
- construction of line bays in Iriri Substation, in the state of Espírito Santo, in order to meet the call for the increased demand in the concession area under *Ampla*, especially in what concerns Gas Production Anticipation Plan (Plangas), approved by Brazil's National Energy Council (*Conselho Nacional de Política Energética – CNPE*), to make feasible Petrobras project, which is part of PAC.

System Operation

In order to maintain quality control and reliability of the services rendered, in the context of the current scenario, the areas of electric studies, electric planning of operation and actual operation of National Interconnected System (*Sistema Interligado Nacional – SIN*) developed actions toward streamlining, on the one hand, maintenance needs, and operating barriers and, on the other hand, equipment profile handled by FURNAS with a view to meeting those requirements laid down by National Electricity System Operator (*Operador Nacional do Sistema Elétrico – ONS*), by Aneel's Regulatory Acts and by the operating norms prevailing among the interconnected companies acting in generation, transmission and distribution.

In what concerns specifically to the set of rules governing the sector, special attention was given to studying and publicizing Aneel's Normative Resolution No. 270, of June 26, 2007, as much as to its enforcement, which establishes rulings safeguarding the quality of energy transmission associated with the premises that integrate the Basic Grid that belongs to SIN.

During 2007 generation installations were available 89.3% of the time (83.9% when considered the interruptions due to the modernization process) whereas in transmission the lines were available 99.3% of the time.

In the area of transmission the main events were related to the initial operation of new installations, listed below, providing increased reliability and better performance of SIN's operations:

- TL 345 kV Itutinga – Juiz de Fora, with 144 km, constructed in association, under the concept of SPE, namely: FURNAS (25%), *Companhia Técnica de Engenharia Elétrica (Alusa)* (41%), Cemig (24%), and *Orteng Equipamentos e Sistemas* (10%);
- Guarulhos Substation, bearing a new topology with two independent double busbars, operating at 345 kV, and a new digital buss-bar differential protection system, which enabled connecting the new TL 345 kV Anhangüera – Guarulhos, under the ownership of CTEEP preventing the substation from a likely short circuit;
- second circuit 230 kV between Brasília Geral and Brasília Sul Substations, starting at TL 230 kV Pirineus – Brasília Geral, in Brasília Sul Substation, placing a greater reliance on the energy supply to the Federal District and the greater Goiânia;
- three new series capacitor banks at Itumbiara (1) and Rio Verde (2) Substations, totaling five banks, within Mato Grosso state consumer demand, offering a 200 MW increase to the supply limit (import/export) within the region;
- reinstalling and recabling the lines of the transmission trunk, at 138 kV, which interconnects Santa Cruz and Jacarepaguá Substations, in Rio de Janeiro state, in order to adapt them to the start-off of the combined cycle (two new gas turbo-generator units) at Santa Cruz Thermolectric Power Plant (TPP), and to supply energy to Light Company and to the new industrial clients under way;
- recommissioning and change of the control system of unit 02 at Serra da Mesa HPP in order to enable operation with the synchronous compensator and ancillary service rendering (voltage control) for the SIN.

Within the scope of electric planning of operation were executed pre-operational studies of new equipments, requirement analysis to access the SIN, studies for protection adjustments, factory acceptance tests, commissioning of protection and control systems, as well as studies at the Electric System Real Time Simulator for several different jobs, with emphasis on the following:

- bus-bar separation at Guarulhos Substation, as described above;
- seccionalization of TL 230 kV Brasília Geral – Pirineus, as described above;
- special operational plan for Rio de Janeiro, during the Pan American Games of 2007;
- automatic restart of transmission lines with a view to minimizing the drop in revenue caused by variable parcel;
- perturbation analysis in FURNAS premises in order to comply with ONS, Aneel and the Electrical Sector Monitoring Committee (*Comitê de Monitoramento do Setor Elétrico – CMSE*);
- installation of Emergency Control Scheme (*Esquemas de Controle de Emergências – ECE*), in order to improve SIN's performance and reliability;
- installation of new series capacitors within Mato Grosso state supply system in order to increase exchange capability between the Southeastern and the Midwestern regions.

Certification of the Company's Operation Centers was renewed, in accordance with Contract for Transmission Services with ONS, abiding by Brazilian Standard (NBR) ISO 9001:2000.

In order to meet the complex call laid down by Aneel's Normative Resolution No. 270/2007, related to variable parcel, a new intervention analysis program was envisaged.

In compliance with the policy of continuous improvement of regulation, control and protection systems of power plants, transmission lines and their related equipment, FURNAS proceeded in making intensive use of the Electric System Real Time Simulator installed at its Main Office. The simulator is an international reference, and has been coping with the requests from national and international electric energy companies.

On the same line with the policy of continuous improvement was implemented the upgrading of several equipment incorporated into the Supervision and Control Operation Centers.

Maintenance of Installations

In order to keep equipment availability at a high rate, FURNAS seeks to couple the expertise of its technical staff with a strict maintenance philosophy.

At its premises, the Company upholds an accurate maintenance plan and the guarantee of adequate supply within the electrical system.

Modernization of generating power plants proceeded, with the following highlights:

- continuation of services at Mascarenhas de Moraes HPP, with complete modernization of units within the Phase 1;
- continuation of services at the units of HPP's Furnas and Luiz Carlos Barreto de Carvalho (Estreito).

It's also worth mentioning the following maintenance activities:

- recovery of steam turbine in unit 01 and in units 03 and 04, modernization of turbine supervision system and conclusion of chemical cleaning of boilers combustion systems, at Santa Cruz TPP;
- implementation of the Supervision and Control System (*Sistema de Supervisão e Controle – SAGE*), at Serra da Mesa HPP;
- installation of remote supervision control at Goiás Regional Operation Center, in Peixe Angical HPP;
- installation of a remote control system at Manso HPP, by emulation of man-machine interface, for emergency situations, at Itumbiara HPP.

With respect to substations, the following tasks were highlighted:

- general review and commissioning of 21 high-voltage circuit-breakers (345, 500 and 765 kV), modernization and commissioning of 18 disconnecting switches, classes 500 and 800 kV, from several different areas of the Company, in order to maintain a high operational reliability;
- reparation of seven transformers/autotransformers and reactors, and refurbishing of three convertor-transformers;
- installation of the Supervision and Control System, in Gurupi and Angra dos Reis Substations;
- conclusion of maintenance works and occasional repair in stations of the Atmospheric Discharge Detection System (*Sistema de Detecção de Descargas Atmosféricas – Rindat*), located in Brasília, Serra da Mesa, São José dos Campos, Cachoeira Paulista, Ibiúna, Manoel Ribas, Rio Verde, Jupia, Santa Teresinha and Novo Horizonte;
- conclusion of the works for commercial operation of the second 500/345/13,8 kV transformer bank, at Campinas Substation.

Proceeding with the Recovery Plan for Transmission was executed the replacement of 32,182 insulators, 3,362 spacers-dampers, painting of 163 towers and recovery of 259 tower foundations in several circuits.

Also worth mentioning:

- emergency interventions to re-establish the transmission capacity of circuits affected by rainstorms, in TL 138 kV Rio Verde – Couto Magalhães and TL 230 kV, circuit 1, and 138 kV, circuit 2, Rio Verde – Cachoeira Dourada;
- special and differentiated actions during the Pan American Games of 2007, in the state of Rio de Janeiro, in order to guarantee a continuous and reliable service;
- installation of aluminum modular structures for emergency interventions aiming at reducing the period of recovery, in case of collapse of structures;
- installation and commissioning of the Energy Quality Assessment System, under FURNAS responsibility, to meet the model established by Electric Energy Trading Chamber (*Câmara de Comercialização de Energia Elétrica – CCEE*), in accordance with module 12, of ONS Grid Procedures.

In the Telecommunications' System the following actions were of relevance:

- substitution of conventional cables for Optical Ground Wire (OPGW), at 345 kV Corumbá – Brasília Sul and 230 kV Manso – Nobres Transmission Lines;
- installation of Digital Telephone Centers at Manso HPP, at the Test and Measurement Technical Center in Simplício and Sapucaia HPP;
- installation of the Optical System (*Sistema Óptico – Sisop*) and continued overall migration from analogical to digital;

Commercialization of Electric Energy

Electric energy commercialization in Brazil is ruled by Law No.10.848, of March 15, 2004, and Decree No. 5.163, of July 30, 2004. The domestic market is organized in two different contexts, instituted to make energy purchase and sale contracts:

- Context of Regulated Agreement (*Ambiente de Contratação Regulada – ACR*), open to agents of Generation and Distribution;
- Context of Free Agreement (*Ambiente de Contratação Livre – ACL*), open to agents of Generation, Traders and Free Consumers.

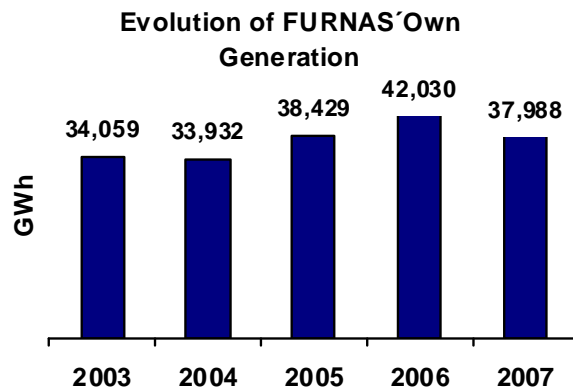
At ACR, energy commercialization takes place through public auctions, regulated by Aneel, directly coordinated by the Agency or CCEE, and leading to regulated by bilateral agreements called Contracts of Electric Energy Commercialization in Regulated Context (*Contratos de Comercialização de Energia Elétrica no Ambiente Regulado – Ccear*), celebrated between each Selling Agent, on one side, and, on the other, every Purchaser (Distributor) that took parts in the auction. FURNAS has been participated in this regulated auctions at ACR, ether when focused on energy from existing generation installations, or from new generation projects.

At ACL, free negotiation takes place involving Independent Producers, Traders and Free Consumers. Public Service Concessionaries, under Federal control, which is the case of FURNAS, are subject to the legal requirement for Auction or Public Call for Energy Sale and Purchase. In this Context resulting agreements are bilateral, between one supplier and one purchaser.

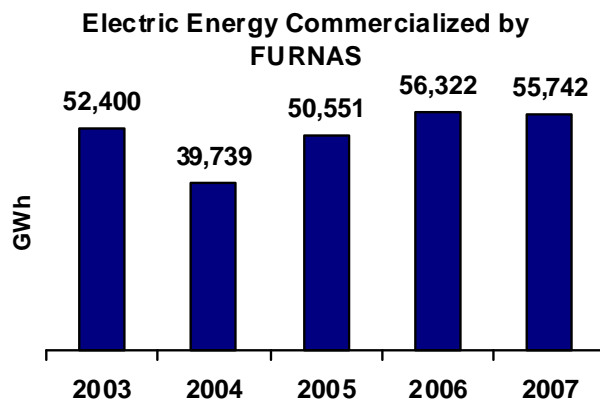
FURNAS achieved good results in participating at the 5th Auction for Energy from New Installations, realized in October 2007, selling energy associated with the Santa Cruz TPP expansion and its share in Serra do Facão and Foz do Chapecó HPP's, both under construction in cooperation with third parties, under SPE association. Beforehand, the 4th Adjustment Auction, realized in March, sold off 16 MW average, between April and July.

The Company proceeded in participating at several auctions in the ACL Context, and became one of the main agents in such market.

Sourcing of energy from existing installations came from plants fully owned by the Company together with energy purchased from Semesa S.A., Proman S.A., EPE – Pantanal Energia, *Companhia de Interconexão Energética* (Cien) and *Eletronuclear S.A.* (Eletronuclear). In this latter case the purchase, sanctioned by by Resolution Aneel No. 252/2005, is bound to the execution of Decrees No. 2.655/1998 and 4.550/2002 and Regulation No. 320/2004 of Ministry of Mines and Energy (MME).



Note: In 2007, for Serra da Mesa and Manso HPP, the amount contains only the electric energy parcel fully owned by FURNAS, respectively, 48.46 and 70%.



Commercialization of Transmission Services

Commercialization of Transmission Services takes place in two contexts, namely: in public services (concession) and where the exclusive interest of agents of the electric sectors (extra concession).

Public Services (Concession) Context

The Public Electric Energy Transmission Services are characterized in the Concession Agreement by the availability of transmission installations.

- Basic Transmission Grid

Transmission installations, classified by Aneel as integrating the Basic Grid, are made available to ONS upon receipt of Allowed Annual Revenue (*Receita Anual Permitida – RAP*), as registered in the Contract of Transmission Rendering Services. RAP is adjusted yearly by Aneel specific resolution, based on General Market Price Index (*Índice Geral de Preços do Mercado – IGP-M*), and also by incorporating new installations.

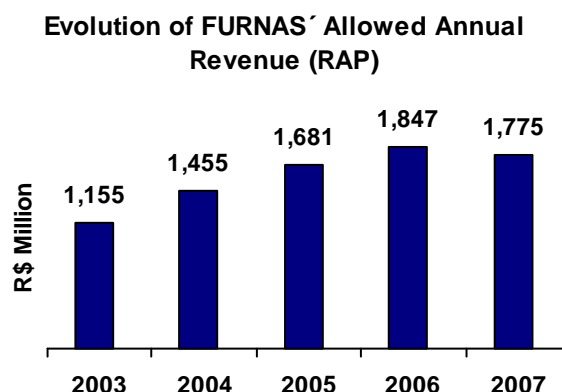
From May 31, 2000 on, for the new transmission installations authorized to operate by Aneel, a tariff review process shall be made every four years, corresponding to RAP parcel.

The first tariff review, which should have taken place in 2005, was realized in 2007 and reduced FURNAS RAP for the period 2007-2008, retroacting to the periods of 2005-2006 and 2006-2007. From the second half of 2007 on, therefore, besides the reduction of the 2007 RAP, an adjustment parcel is being discounted, concerning those sums paid in excess in the two previous periods.

In the period 2007-2008, revenue inflows stemming from the start-off of commercial operation of Basic Grid transmission installations were considered, namely:

- in Rio Verde Substation, two 230 kV series compensation banks, one at 34 Mvar, for TL Itumbiara – Rio Verde circuit 1, and one at 37.2 Mvar, for TL Rio Verde – Barra do Peixe circuit 1;
- in Itumbiara Substation, a 230 kV series compensation bank at 33.9 Mvar, for TL Itumbiara – Rio Verde circuit 1;
- in Brasília Sul Substation, two 230 kV line entry modules.

The following chart presents RAP increase in the last five years for the Basic Grid transmission installations.



- **Transmission Installations Outside the Basic Grid**

Other transmission installations, which do not integrate the Basic Grid, are made available to the agents of the Electric Sector directly upon receipt of the corresponding RAP, dubbed here “connection charges”, as registered in the Connection to the Transmission System Contract (CCT).

According to the rules, CCT’s are negotiated directly with the free consumers, energy generation agents and energy import/export agents. In the case of distribution agents, “connection charges” are defined and updated on a yearly basis through Aneel’s Specific Ratifying Resolution, based on the fluctuation of IGP-M.

- Sharing of Installations Contract

In transmission public services concession, sharing of installations and infra structure with third parties is mandatory, where revenues are guaranteed, as is the case, in a Sharing of Installations Contract (CCI) or Sharing of Right of Way Contract (CCFP).

Revenue increase produced by these contracts, is as follows:

Nature of Contract	R\$ thousand				
	2003	2004	2005	2006	2007
Connection to the Transmission System (CCT)	5,328	6,314	11,352	13,180	14,221
Sharing of Installations (CCI)	1,830	703	2,633	2,031	2,284
Sharing of Right of Way (CCFP)	-	519	155	-	-
Total	7.158	7.536	14.140	15.211	16.505

Extra Concession Context

The Concession Agreement allows development of other activities upon receipt of “other revenues”, agreed by specific contracts, which are not part of the Public Electric Energy Transmission Services regulated by Aneel. Such is the case of, among others, the following Contracts: Rendering of Operation and Maintenance Services (CPSOM), Rendering of Maintenance Services (CPSM), and Sharing of Infrastructure (CCIF), which are made with agents outside Electrical Sector.

Revenue evolution, as produced by the above-mentioned agreements, is broken down as follows:

Nature of Contract	R\$ thousand				
	2003	2004	2005	2006	2007
Rendering of Operation and Maintenance Services (CPSOM)	-	-	2,717	1,563	1,684
Rendering of Maintenance Services (CPSM)	506	581	1,177	1,036	1,163
Sharing of Infrastructure (CCIF)	-	-	-	2,000	1,700
Total	506	581	3.894	5	5

Commercialization of Technical Support, Operational and Administrative Services

In 2007, FURNAS provided technical and managerial services, in the fields of generation and transmission, for public and private companies, domestic and foreign. During this period, 34 proposals were issued.

Main Services Rendered

Client	Service
<i>Gabinete de Aproveitamento do Médio Kwanza (Gamek) – Angola</i>	Continuation of support services for the operation and maintenance of Capanda HPP
<i>Hidropastaza S.A. – Ecuador</i>	Finalization of supervision of construction of San Francisco HPP
<i>Enerpeixe S.A. – Brazil</i>	For Peixe Angical HPP: - issue and furnish the Operation Manual; - operation and maintenance of HPP, substation and associated transmission; - dam structural check.
<i>Cachoeira Paulista Transmissão e Energia S.A. – Brazil</i>	Continuation of hydrometric services in the Tocantins river in area affected by the reservoir Operation and maintenance of 500 kV Cachoeira Paulista – Tijuco Preto TL, single circuit, 180 km

Client	Service
<i>Samarco Mineração S.A. – Brazil</i>	Feasibility studies of connection of 345 kV Vitória – Ouro Preto II TL to the Basic Grid
<i>Companhia de Transmissão Centroeste de Minas – Brazil</i>	During construction of 345 kV Furnas – Pimenta II TL, single circuit, 75 km: - technical-administrative support to owner’s activities; - technical and environmental management of execution and quality control
<i>Companhia Brasileira de Alumínio – Brazil</i>	Studies of electric behavior to verify the feasibility of connection to the system of projected Tijuco Alto HPP, about 140 MW, near Cerro Azul and Adrianópolis (PR)
<i>Operador Nacional do Sistema Elétrico (ONS) – Brazil</i>	Development of programs and procedures associated with the evolution of hardware and software resources
<i>Petrobrás – Petróleo Brasileiro S.A. – Brazil</i>	Installation of signalization spheres on several FURNAS transmission lines, on line bays over Transpetro pipelines
<i>Serra do Facão Energia S.A. – Brazil</i>	For Serra do Facão HPP: - Owner’s Engineering services, concerning the installation of HPP, substation and associated transmission, and civil works in area affected by the reservoir; - restudy of the backwater of the reservoir
<i>Foz do Chapecó Energia S.A. – Brazil</i>	Owner’s Engineering services concerning the installation of Foz do Chapecó HPP, substation and associated transmission
Several Clients	Services involving concrete technology and soil mechanics Personnel trainings and quality control of equipment at the Electric Systems Simulator

Evolution of Electric Installations in Operation

Generating Plant – Installed Capacity, Ownership and Assured Energy

Amounts of assured energy for each Power Plant correspond to the maximum amounts of energy and electric output associated to each installation available to evidence the compliance with load demands or commercialization through contracts.

Revision of generating plants assured energies was effected in 2004, when MME defined criteria for physical guarantee of generating installations, under the assumption of a deficit of supply limited to 5%.

Power Plant	Installed Capacity (MW)	Ownership of Installation (%)	Assured Energy (Average MW)				
			2003	2004	2005	2006	2007
Hydroelectric							
Full Ownership							
Itumbiara	2,082	100.00	1,015	1,015	1,015	1,015	1,015
Marimbondo	1,440	100.00	726	726	726	726	726
Furnas	1,216	100.00	598	598	598	598	598
Luiz Carlos Barreto de Carvalho (Estreito)	1,050	100.00	495	495	495	495	495
Mascarenhas de Moraes	476	100.00	297	295	295	295	295

Power Plant	Installed Capacity (MW)	Ownership of Installation (%)	Assured Energy (Average MW)				
Corumbá I	375	100.00	209	209	209	209	209
Porto Colômbia	320	100.00	185	185	185	185	185
Funil	216	100.00	121	121	121	121	121
Shared Ownership							
In Partnership							
Serra da Mesa	1,275	48.46	671	671	671	671	671
Manso	212	70.00	92	92	92	92	92
Special Purpose Entity (SPE)							
Peixe Angical	452	40.00	-	-	-	63	271
Thermoelectric							
Full Ownership							
Santa Cruz	766	100.00	410	450	547	496	496
Roberto Silveira (Campos)	30	100.00	21	21	21	21	21
São Gonçalo (out of service)	-	100.00	-	-	-	-	-

Substations – Voltage and Transforming Capacity

The evolution of the transforming capacity installed (MVA) at substations operated by FURNAS, in 2007, was a result of the substitution and energization of a damaged unit in one of the autotransformers' bank at Ivaiporã Substation.

Voltage (kV)	MVA				
	2003	2004	2005	2006	2007
≤ 230	3,913	4,074	4,048	5,213	5,095
345	24,206	24,426	25,021	25,246	24,985
500	42,278	43,078	44,888	47,598	47,421
750	21,400	21,400	23,050	23,050	24,150
Total	91,797	92,978	97,007	101,107	101,651

Transmission Lines – Operating Voltages, Ownership and Extension

Starting in 2006, the first Transmission Lines built in cooperation with other companies were put in operation, besides those of full ownership as shown below:

Full Ownership

Voltage (kV)	km				
	2003	2004	2005	2006	2007
≤ 230	4,349	4,349	4,349	4,349	4,349
345	5,686	5,686	6,069	6,070	6,070
500	4,371	4,549	4,549	4,549	4,549
± 600 (CC)	1,612	1,612	1,612	1,612	1,612
750	2,698	2,698	2,698	2,698	2,698
Total	18,716	18,894	19,277	19,278	19,278

Shared Ownership

Special Purpose Entity (SPE)

The table below shows transmission lines that were put in operation from 2006 on. In 2007, TL's Itutinga – Juiz de Fora and Irapé – Araçuaí circuit 2 were energized. Both are under the PAC, sponsored by the Federal Government, and feature the following:

Transmission Line	Voltage (kV)	Started Operations in 2006		Started Operations in 2007	
		Total (km)	FURNAS participation (%)	Total (km)	FURNAS participation (%)
Irapé – Araçuaí II	230	-	-	61 *	24.5
Itutinga – Juiz de Fora	345	-	-	144 *	25
Montes Claros – Irapé	345	139 *	24	-	-
Peixe Angical – Gurupi	500	92	40	-	-

* Effective length in kilometers, which, after construction, showed a slight difference as forecast in Aneel's Concession Contract.

Supervision and Control of Generating Plants and Substations

Since 1997, FURNAS has been installing Digital Systems for Supervision and Control in every new installation of generation and transmission, as well as in the expansion of pre-existing installations. By the end of 2007, 17 installations were fully digitalized and 18 under adaptation.

Since 2003, the Company is a participant in the Sinocon project, under responsibility of ONS, which envisages the modernization of digital supervision equipment of several agents.

In relation to the documentation management, new equipment was purchased to make feasible digital file recovery, in specific software, from data plotting, to distribution and filing in the Technical Documentation Electronic Management System (GED).

Telecommunication Transmission System

This system, composed by radio and optical sub-systems, encompasses 5,251 km of digitalized routes, servicing 78% of all FURNAS operating units. Out of the 60 operative units (46 substations, 13 power plants and the Operations Center, at the main office in Rio de Janeiro), 47 are attended by digital technology, and 3 by analogical. Ten units are attended by third parties.

In 2007, were installed the remaining 66 km of OPGW cables at the Manso – Nobres TL, totaling 560 km worth of cables donated by *Empresa Brasileira de Telecomunicações* (Embratel), foreseen in the agreements, signed in 2006, covering the sharing of infrastructure and donation of hardware.

Investments Included in the Pluriannual Plan (PPA)

Execution of the Budgetary Actions included in the Pluriannual Plan (PPA) 2004-2007 of the Federal Government and committed to FURNAS, required, in 2007, an investment of R\$ 822.5 million. The main projects, reported here, absorbed 80% of the amount invested:

Installation of Simplício HPP, Anta PCH and Associated Transmission Lines

This project, adjudicated to FURNAS at Aneel's Auction No. 002/2005, refers to the construction of both Simplício HPP and Anta PCH, on the Paraíba do Sul river, between the municipal districts of Três Rios and Sapucaia, in the state of Rio de Janeiro, and Além Paraíba and Chiador, in the state of Minas Gerais, with a total installed capacity of 333.7 MW. It also contemplates the interconnection between Anta PCH and Simplício HPP and the connection to the SIN, through one 138 kV, double circuit, transmission line, 120 km long.

In 2007, Brazilian Institute of the Environment and Natural Renewable Resources (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis – Ibama*) issued the Installation License and Authorization for Earthworks, which enabled, from August 2007 on, works to be executed as forecasted for the year. The executive design is in progress, with excavation in soil and rock under way at Anta, Simplício and in the interconnection areas. The topography, identification, registration, and evaluation services of the properties are also worth mentioning, along with the purchase of some of the analyzed areas.

Modernization of Luiz Carlos Barreto de Carvalho HPP

Luiz Carlos Barreto de Carvalho HPP, situated on the Grande river, state of Minas Gerais, with 1,050 MW of installed capacity, has 6 generating units, the first one being in operation since March 1969, meaning an activity of almost 40 years. Modernization of the plant contemplates actions involving overall recovery of turbines, generators and associated items, in parallel with the installation of new systems of control, command, supervision, monitoring and protection, to extend the useful life of the plant. Also contemplated is the digitalization of command and control of the plant, thereby increasing the operational safety and reliability of the equipment and electromechanical systems.

In 2007, the following activities must be highlighted: modernization of the rolling bridge of powerhouse; construction of relay house, emergency diesel generator group house, powerhouse and substation, local control rooms in Generating Unit (GU) 01 and 02, and battery room; installation of new auxiliary mechanical and electrical systems. GU 01 is at final commissioning stage.

Modernization of Furnas HPP

This plant, the first one installed and operated by the Company since 1963, is situated in Grande river, state of Minas Gerais, with an installed capacity of 1,216 MW. This investment program has the main purpose of modernizing the generating units, the substation, and ancillary installations, as well as the overall digitalization, with new systems of control, command, supervision, monitoring, and protection. In addition to extending its useful life, the new features shall allow the remote control of the plant and increase the operational safety and, consequently, the reliability of equipment and electromechanical systems.

In 2007, were concluded the electro-ducts erection in line bays for Mascarenhas de Moraes and Itutinga I Substations and the reinforcement of the grounding network at Furnas Substation. Commissioning of GU 05 is in final stage.

Maintenance of the Electric Energy Transmission System

This action refers to maintenance and modernization of transmission installations, involving the purchase of spare parts and replacement of equipment to minimize the risk of unavailability and to increase reliability. Services also involve the payment of financial compensation for the transference of land ownership to the Company for installation and expansion of transmission lines, substations, remote terminals and oscilography system in substations.

In 2007, several maintenance and modernization works were executed in the Company's substations, involving protection systems substitution, equipment replacement, installation of surge arresters, fire-control and air conditioning equipment. Also to be mentioned are tied to the modernization of Sinocon for replacement of protections in several substations.

Reinforcement of Goiás, Mato Grosso, and the Federal District Transmission System

In 2007, the following projects were concluded:

- at Brasília Sul Substation, installation of two line bays, in 230 kV, for the second circuit of TL Brasília Geral – Pirineus – Xavantes and Brasília Sul – Brasília Geral, in order to eliminate the overload caused by emergency situations of Pirineus – Xavantes TL;
- at Rio Verde Substation, installation of 37.2 and 33.9 Mvar banks of series capacitor (TL Rio Verde – Barra do Peixe and Itumbiara – Rio Verde I), which made possible to export electric energy generated at the state of Mato Grosso to the load centers of the Southeastern Region; and a line bay at Acreúna Substation, fully owned by *Companhia Energética de Goiás* (Celg), in order to reach the necessary conditions to supply energy to the Southern Region of Goiás state, improving services to the local industries;
- at Itumbiara Substation, installation of 33.9 Mvar, bank of series capacitor, which is also part of the reinforcement to the existing transmission system, in order to make feasible exporting exceeding electric energy generated at the state of Mato Grosso to the load centers of the Southeastern Region.

Reinforcement of the Transmission System in the States of Rio de Janeiro and Espírito Santo

The following projects were executed to integrate additional power to SIN, by Santa Cruz TPP, namely:

- conclusion of the reconstruction of Santa Cruz – ZIN (industrial district), part of 138 kV TL Santa Cruz – Jacarepaguá I;
- at Jacarepaguá Substation, proceeded civil works and electromechanical erection of equipment;
- at Santa Cruz – Jacarepaguá II and III TL, beginning of refurbishing services;
- at Santa Cruz Substation, signed the contract for execution of civil works and electromechanical erection of equipment.

Implementation of Tijuco Preto – Itapeti – Nordeste Transmission System

This action comprises TL Tijuco Preto – Itapeti, circuits 3 and 4, and Itapeti – Nordeste, double circuit 345 kV, and associated installations, which will interconnect the Tijuco Preto and Itapeti and Nordeste Substations, fully owned by CTEEP, all situated in the state of São Paulo. The purpose is to strengthen supply to the greater São Paulo, bringing in more reliability in the services provided to the load centers in the region, once there is surplus in the existing lines.

The main activities developed in 2007 are associated with obtaining the environmental licensing from the regulating agencies to start the construction works. Besides, were executed equipment and material acquisition for the substations and transmission lines, as well as land appraisal, which will enable negotiating land deed. Moreover, the Company signed with CTEEP the contract for sharing of right of way of the Tijuco Preto – Itapeti segment.

Reinforcement of the Transmission System in the States of São Paulo and Minas Gerais

In the fiscal year under view, the following projects were highlighted:

- at Luiz Carlos Barreto de Carvalho Substation, continuation of the installation of a 345 kV section switching, and replacing conventional protection for adaptive protection, eliminating manned processes in reprogramming bar protection schemes and risks of unduly action-taking;
- at Campinas and Ibiúna Substations, continuation of supplying equipment for the installation of 345/138 kV – 150 MVA autotransformer banks and 500 kV – 180 Mvar movable reactors bank. The reinforcement of Campinas Substation is to offset emergency in a failing bank, which causes an overload in the three other remaining transformers; and the reinforcement at Ibiúna Substation is to enable a better control of high voltage levels, besides lightening reactive power flows of 500 and 345 kV transformers banks of the Substation.

Main Relationships of FURNAS

Relationship with the Ministry of Mines and Energy and the Holding Eletrobrás

FURNAS, as a subsidiary of Eletrobrás, is a member of the Upper Board of Eletrobrás System (*Conselho Superior do Sistema Eletrobrás – Consise*), which gathers the CEO's of all Group companies, to formulate and implement corporate strategies of common interest.

Participation in Committees

Within the scope of Consise, FURNAS participates in the following Committees:

- Eletrobrás' Strategic Planning Committee (*Comitê de Planejamento Estratégico da Eletrobrás – Copese*), with the objective of providing background information to Consise in order to improve the relationship between the Holding company and its controlled companies, through macro guidance that permeates the strategic planning of each company, respecting their specific characteristics;

- Operation, Planning, Engineering and Environment Committee (*Comitê de Operação, Planejamento, Engenharia e Meio Ambiente – Copem*), develops strategic actions and directions, aiming at a coordinated and harmonious action among its companies, so as to obtain higher efficiency and range at the domestic energy scenario. FURNAS is represented in the Committee by two Executive Officers: the Engineering Officer and the Systems Operation and Energy Commercialization Officer. It participates, through its technical structure, in the studies already initiated about market planning and electric energy offering in specific sub-committees, as follows:
 - Energetic Studies Subcommittee, in two work groups started in 2007 and coordinated by Eletrobrás together with regional controlled companies, focusing on energy demand studies. One group heads studies on electric energy market dynamics, and the other one, on mapping and assessing economic prospective in the different Brazilian regions in order to provide information for strategic and energy market planning within the Eletrobrás System;
 - Transmission Studies Subcommittee, under the Transmission work group, is charged of drawing up and furnishing to the Supply work group, transmission data necessary for developing Eletrobrás System Supply Expansion Program, such as exchange limits between regional subsystems and the costs associated with transmission expansion;
 - Environmental Subcommittee, in sustainable development issues regarding the environment, which rallies managers and experts active in environmental corporate issues for updating and developing a common agenda, with the following priority items: Environmental Law addressed by sectors; Greenhouse gases; Environmental costs; Environmental Management of Isolated Systems; Water Resources Management; Environmental Management Tools and Subsidies for Expansion Planning;
- Corporate Integration Committee for Research and Technological Development (*Comitê de Integração Corporativa de Pesquisa e Desenvolvimento Tecnológico – Cicop*), stimulates research actions and seeks technological innovation in order to obtain the intellectual property registries (patents, trademarks and computer programs), technology transfers and the System companies partnership with universities, research centers and industries. Within Cicop, FURNAS participates in the following task forces: technology and innovation management; intellectual property and patents; energy efficiency; revitalization of Cepel; articulation with the industry; renewable energies; development of regional projects; R&D at federal government companies; and thermoelectricity.
- Sustainability Committee, which, within corporate governance, aims at aligning actions of the subsidiaries, by having them fill in questionnaires used as management tools. To give support to the Holding to reach American Depositary Receipts (ADR) level 2, at New York Stock Exchange (NYSE), FURNAS provides information required in Dow Jones Sustainability Index (DJSI), and complies with the Sarbanes-Oxley Law (USGAAP and Form 20F). With the same purpose, it also participates in Business Sustainability Index (ISE) of the São Paulo Stock Exchange (Bovespa);

It is also worth mentioning the rendering of information to Eletrobrás Financial Officer about FURNAS budgetary execution in addition to the presentation of Budget Proposal for 2008, together with the General Disbursements Plan (*Plano de Dispêndios Globais – PDG*).

Participation in Government Programs

In what refers to the participation of the Electric Sector in PAC, launched by the Federal Government, in 2007, FURNAS is a hallmark in the installation of generation and transmission projects as described in Business Expansion and Evolution of Electric Installations in Operation.

We should also highlight the Company's participation in the National Program for Electric Energy Conservation (*Programa Nacional de Conservação de Energia Elétrica – Procel*), sponsored by Eletrobrás, which is described in sub-item Energy Conservation of this report.

The Light for Everybody Program (*Programa Luz para Todos*), launched by the Federal Government in 2004, coordinated by MME, and executed by Eletrobrás, through its subsidiaries, in partnership with state governments, energy concessionaries, and rural electrification cooperatives, pursues to provide electric energy for rural localities with a low Human Development Index (HDI), enabling a better reach for health-related services, education, water supply and sanitation.

FURNAS was assigned to coordinate the Program in the Southeastern Region plus the state of Goiás, and until December 2007, 333 thousand families were benefited in these regions. Until the end of the Program, December of 2008, over 420 thousand families are forecasted to be reached, to the benefit of over 2 million people.

The Program is also a vector of economic and social development. Integrated actions were created in partnership with social and productive inclusion programs, dubbed Integrated Actions, which assist benefited families in optimizing electric energy resources. Under this scope, the Community Tele-centers make available areas equipped with internet-linked computers with the purpose to ward off digital exclusion. In October and November 2007, FURNAS opened in São Paulo two Tele-centers, benefiting 6 thousand people in rural communities.

The Arch of Letters Program (*Programa Arca das Letras*) is designed for the installation of around 2,000 libraries in communities already serviced by the Light for Everybody Program, fostering and facilitating the access to book reading in indigenous communities, family agribusiness, slave-funded communities and dam-affected families. In the Southeastern Region and in the state of Goiás, the Company plans to implement 625 libraries in rural communities in Minas Gerais, São Paulo, Rio de Janeiro, Goiás and Espírito Santo. Of this total, 47 units were delivered to communities in Minas Gerais and to 100 communities in the state of Espírito Santo in 2007.

The Energetic Development Program for States and Municipal Districts (*Programa de Desenvolvimento Energético dos Estados e Municípios – Prodeem*) is also worth mentioning. Started in 1994 by the National Department of Energetic Development (*Departamento Nacional de Desenvolvimento Energético – DNDE*), under the discretion of the MME, whose role is to assist populations that are not serviced by the conventional electric energy grid to resort to renewable and pollution-free energy sources. Energetic systems used by the Program are mostly photovoltaic panels that exposed to the sun light produce electric energy in direct current, which can be directly used or stored in batteries for later use.

The benefits produced are countless and of fundamental importance for economic and social integration, once they settle people in their homeland, reducing migration to urban centers. Among the advantages, the foremost ones are: quality illumination that enables night schools to operate; water pumping, which boosts the improvement of health services and quality of life; and community kitchen-gardens, which diminishes food shortage.

Prodeem restructuring, dating back to 2003, which resulted from consultation with the agents involved, namely MME, *Companhia Hidro Elétrica do São Francisco* (CHESF), *Centrais Elétricas do Norte do Brasil S.A.* (Eletronorte), *Eletrosul Centrais Elétricas S.A.* (Eletrosul), FURNAS and National Network of Civil Society Organizations for Renewable Energies (*Rede Nacional de Organizações da Sociedade Civil para as Energias Renováveis*), was realized through the start-off of Prodeem's Revitalization and Furbishing Program (*Programa de Revitalização e Capacitação – PRC*).

In 2004, by means of Technical and Financial Accord No. 012/2004, FURNAS was assigned by MME the duty of coordinating Prodeem's PRC in the states of Minas Gerais, Rio de Janeiro, São Paulo, Espírito Santo and Goiás. By year-end 2007, the Company had completed 97% of the program forecast.

Relationship with the Energy Research Company (EPE)

FURNAS participates in the technical activities for development and analysis of the documentation related to energy planning, as well as provides relevant data and information available in the following working groups: market, transmission expansion and environment.

In 2007, the Company participated in EPE data gathering, providing information to elaborate the National Energy Balance (*Balanço Energético Nacional*) – 2007, base period 2006.

Moreover, the Company was active in registering and issuing technical permits for generation installations, where it has a direct or indirect interest regarding concession or authorization to operate, in order to participate in energy auctions produced by new projects.

In 2007, FURNAS participated in the following study groups regarding transmission planning:

- servicing the states of Rio de Janeiro and Espírito Santo;
- servicing the states of Goiás and the Federal District;
- electrical system analysis for the Mantiqueira mountain region, in the state of Minas Gerais – Cemig – and the concession area under the *Companhia de Força e Luz Cataguazes-Leopoldina* (CFLCL);
- transmission system studies to flow off the electric energy produced on the Madeira river plants.

Relationship with the Electric Energy Trading Chamber (CCEE)

FURNAS, as holder of a public service concession for generating electric energy, participates in the "Generation" category, on a proportional basis to the volume of commercialized energy, calculated from the results of the previous 12 months. This participation occurs in the Board of Directors and at the Arbitral Convention.

Relationship with the National Electricity System Operator (ONS)

FURNAS is represented at the General Meeting and is one of the full members of ONS Board of Directors in the "Transmission" Category.

In 2007, the following activities maybe pointed out:

- action together with ONS, to increase the confidence in the electric system and optimize its performance in parallel with the preservation of its assets integrity, as well as the participation in studies to define the system's operation philosophy;
- participation in the development of the Expansion and Reinforcement Plan (*Plano de Ampliações e Reforços*), related to the 2008-2010 period and in the SIN electric operation plan for the year 2007;
- participation in working groups, under ONS coordination, concerning: Survey of Equipment that have its nominal characteristics exceeded; SIN Reliability and Regional Interconnection Analysis; and Quality of FURNAS Transmission System related to voltage and frequency deviation, harmonics, flicker etc.

Relationship with the Brazilian Electricity Regulatory Agency (Aneel)

FURNAS works with Aneel regarding the matters related to the Brazilian legalization process of generation and transmission projects involving among others: construction permission; establishment of dates for installations energizing; communication of completion/energizing of projects; information about implementation of reinforcements and improvements in equipment; and about the R&D Program, in its different cycles; cooperation in inspections of installations in operation; requests for approval and review of energy prices; and homologation of energy purchase and sale contracts.

Relationship with Environmental Issues

The Company liaises with several environmental agencies, markedly Ibama, Brazilian Institute of Historic and Artistic National Patrimony (*Instituto do Patrimônio Histórico e Artístico Nacional*) and the National Indian Foundation of Brazil (*Fundação Nacional do Índio*), as a direct consequence of having several installations spread in great part of the national territory.

Partnerships

Object of Partnership	Partner	Assured Energy and Power (%)	
		FURNAS Participation	Partner Participation
Contract for construction of Serra da Mesa HPP and leasing to FURNAS, by the partner, of assets and installations of his ownership (general contract of April 26, 1995)	<i>Semesa</i>	48.46	51.54
Contract for sharing of Manso HPP concession (February 10, 2000)	<i>Proman</i>	70.00	30.00

Special Purpose Entity

As a subsidiary of Eletrobrás, the possibility of FURNAS having a shareholder participation in SPE's for electric energy projects became viable since July 2003, with the changes introduced in its Corporate By-Laws, which allowed the following partnerships:

Company	Installation	FURNAS Equity Participation (%)
Generation		
Enerpeixe S.A. *	HPP Peixe Angical	40
Companhia Retiro Baixo Energética	HPP Retiro Baixo	49
Consórcio UHE Baguari	HPP Baguari	15
Chapecoense Geração S.A. **	HPP Foz do Chapecó	49.9
Serra do Facão Participações S.A. ***	HPP Serra do Facão	49.9
Transmission		
Companhia de Transmissão Centroeste de Minas	TL Furnas – Pimenta II	49
Companhia Transudeste de Transmissão *	TL Itutinga – Juiz de Fora	25
Companhia Transirapé de Transmissão *	TL Irapé – Araçuaí	24.5
Companhia Transleste de Transmissão *	TL Montes Claros – Irapé	24

* Installation in operation.

** SPE *Chapecoense Geração S.A.* holds 40% participation in SPE *Foz do Chapecó Energia S.A.*

*** SPE *Serra do Facão Participações S.A.* holds 49.5% participation in SPE *Serra do Facão Energia S.A.*

Relationship with International Entities in the Energy Sector

Brazilian Committee of the World Energy Council (*Comitê Brasileiro do Conselho Mundial de Energia – CBCME*) Associated to the World Energy Council (WEC)

WEC, founded in 1923, headquartered in London, England, congregates entities in the energy area to study and promote provision and sustainable use of world's energy resources. CBCME is a non-governmental, non-profit entity, in which FURNAS participates as a maintaining member, since it was created in 1957. The Company harbors the Committee headquarters in its Central Office in Rio de Janeiro, and supports the accomplishment of national and international events.

In 2007, CBCME organized two panels, dubbed “Performance of Generating Power Plants” and “Panorama on the Mexican Power Scenario until 2030 – a Forecast”, both of which took place at FURNAS Central Office auditorium, and an international seminar on “Transmission Technologies – Energetic Scenarios until 2050”, held at Petrobras Central Office. It also issued the following reports: “Brazilian Energetic Resources – 2007”, “A Summary of Petrobras Strategic Planning 2008-2020” and “A Hearing at the Australian Senate on Oil Supply and Alternative Transport Fuels”.

Brazilian National Committee of Electric Energy Production and Transmission (*CIGRÉ – Brazil*) Associated to the International Council of Large Electric Grids (*Conseil International des Grands Réseaux Électriques – CIGRÉ*)

CIGRÉ is a world organization, created in 1921, aimed at developing, valuating and disseminating the knowledge related to high tension transmitted electricity – with the objective of promoting information exchange, and technical, technological and engineering development.

CIGRÉ-Brazil was created in 1971 and currently has 16 committees related to several energy sector technical areas of interest, out of which three are coordinated by FURNAS. Technicians from planning, engineering, operation and maintenance areas participate in the Committee, acting in work groups, courses and seminars, where specific technical subjects are studied and debated by specialists.

Among the events promoted by the Committee stands out the National Seminar of Electric Energy Production and Transmission (*Seminário Nacional de Produção e Transmissão de Energia Elétrica – SNPTEE*), considered the most important in the Brazilian Electric Sector. In 2007 it will be held in Rio de Janeiro, coordinated and sponsored by the Company.

In 2007, FURNAS promoted the XIX SNPTEE, which rallied over 2 thousand Brazilian and foreign professionals from 29 companies. This bi-annual seminar promotes the interchange of technical and managerial information and experiences among energy, engineering and consulting companies, and research centers, universities and manufacturers and their representatives.

**Brazilian Committee of Dams (*Comitê Brasileiro de Barragens – CBDB*)
Associated to the International Committee on Large Dams (ICOLD)**

Created in 1961, CBDB is a non-governmental organization, aimed at exchanging information and experience in dams planning, design, construction and operation. In Brazil, it represents ICOLD, set up in 1928, and which has committees in 88 member-countries. CBDB's headquarters are installed in a place made available by FURNAS, in its Central Office, in Rio de Janeiro. Nowadays, CBDB has approximately 1,000 individual associates, 25 corporate associates, and 18 collective members throughout Brazil. One of its core activities is to issue books and newsletters that are ultimately an impressive array of technical publications.

In 2007, CBDB promoted the XXVII National Seminar on Large Dams (*Seminário Nacional de Grandes Barragens*) in Belém do Pará, state of Pará, which rallied 670 technicians, and also the III Symposium on Rock-fill Concrete Dams (*Simpósio sobre Enrocamento com Face de Concreto*), in Florianópolis, state of Santa Catarina, where 310 technicians partook. Still in 2007, planning of the 23rd International Congress on Dams (*Congresso Internacional de Barragens*) was initiated. This is the largest event sponsored by ICOLD, which will take place in Brasília, and should count on the participation of 1,500 delegates. For 2008, the VI Brazilian Symposium on Small and Medium Hydroelectric Plants (*Simpósio Brasileiro sobre Pequenas e Médias Centrais Hidrelétricas*) is scheduled to be realized in Belo Horizonte, state of Minas Gerais.

International Hydropower Association (*Associação Internacional de Hidroeletricidade – IHA*)

The IHA was founded in 1995 under the sponsorship of the International Union for Education, Science and Culture (Unesco) and is headquartered in Sutton, England, with associates in over 80 countries. Its core activity is to cater to the ever-increasing world needs for energy by raising power plants that run in line with social sustainability and the due care for the environment.

By year-end 2007, FURNAS decided to become an IHA member, under the category Corporate Member 1.

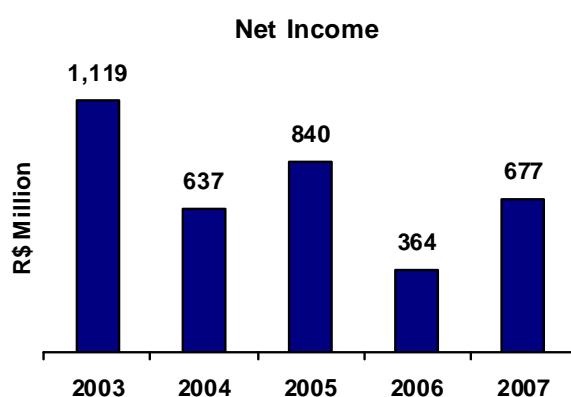
CORPORATE PERFORMANCE

From 2006 on, R&D expenses classification was changed by Aneel, in the MCSPE, being transferred from Operating Expenses to Deductions from Operating Revenue. For this reason, the 2006 Statement of Income was also reclassified to make possible the comparison of information.

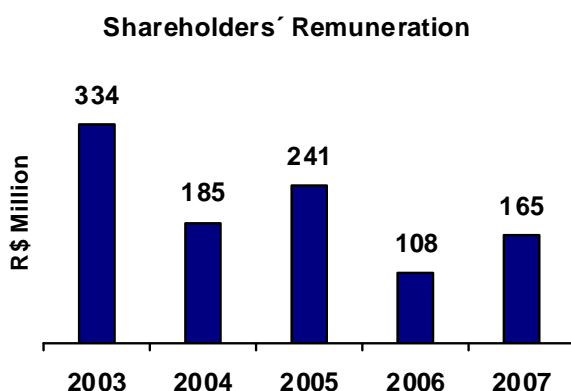
The following indicators reflect corporate performance evolution, in the 2003-2007 period.

Results

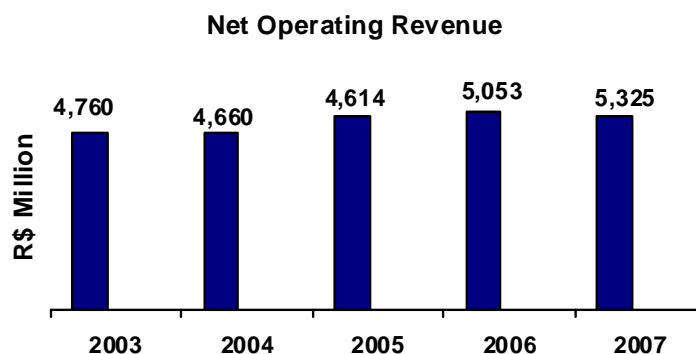
Net Income, in 2007, represented an 86% increase when compared to the previous period. This result is a consequence of adjustments, markedly in what concerns the outstanding balances produced both by the Supplementary Pension Plan Entity and provisions for doubtful debts.



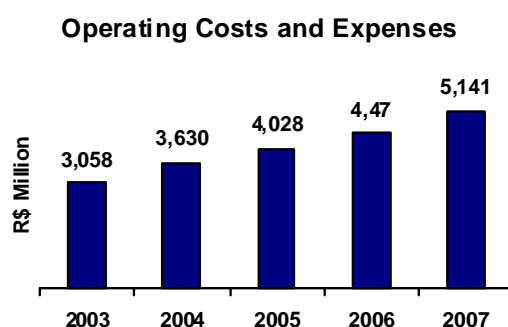
In compliance with the legal and statutory dispositions, FURNAS reserves to its shareholders, as interest on net equity, the amount of 25% of adjusted net income (refers to Note 23 of the Financial Statements).



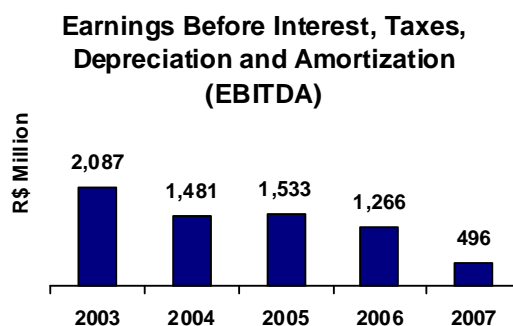
Net operating revenue, in 2007, was 2.2% below the previous fiscal year, as a result of the Periodic Tariff Revision for transmission activities.



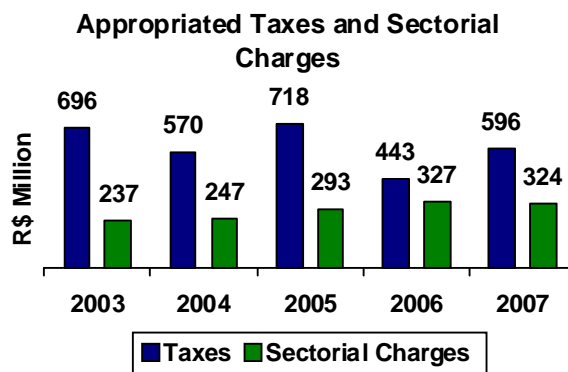
Operating Costs and expenses accrued by 15%, in 2007, mainly due to the constitution of provisions for doubtful debts, totaling R\$ 386 million, and credits concerning Extraordinary Tariff Recomposition, at R\$ 127 million.



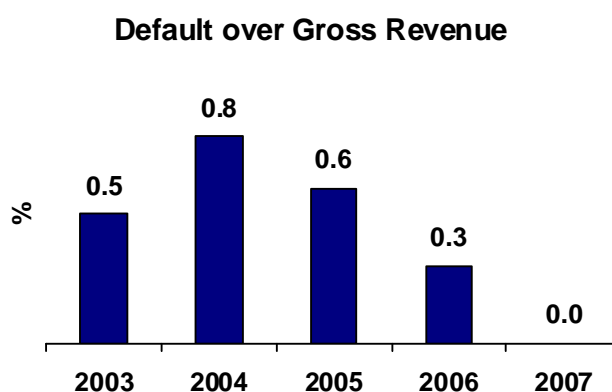
EBITDA, in 2007, decreased 61%, when compared to the previous fiscal year. This result was influenced by the effects of the Periodic Tariff Revision from transmission activities, as well as from constitution of provisions for doubtful debts concerning receivables from Extraordinary Tariff Recomposition, and credits from CCEE pending non-performing status since 2003.



Taxes and charges appropriation, in 2007, which represented 16% of the gross revenue, increased approximately by 19% when compared to the previous fiscal year. This is a consequence of the increased net income (86%) and the improvement in tax management practices.

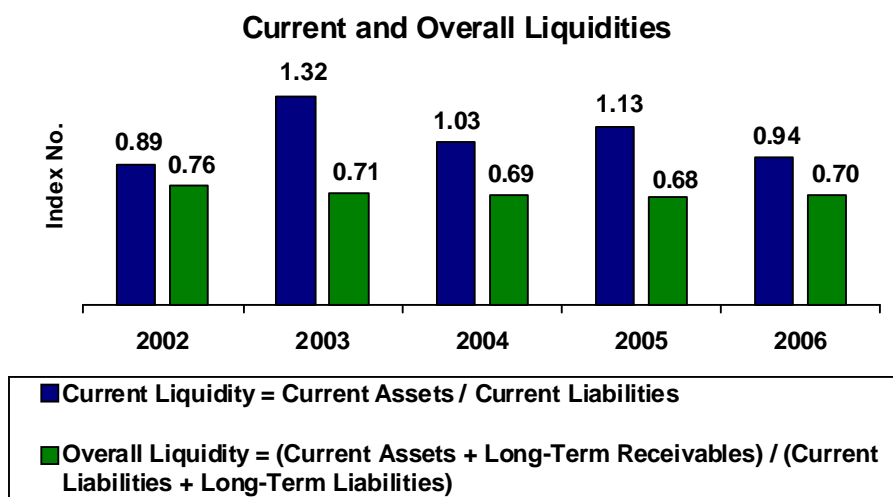


Default, in 2007, which had been decreasing in previous years, set an historical level.

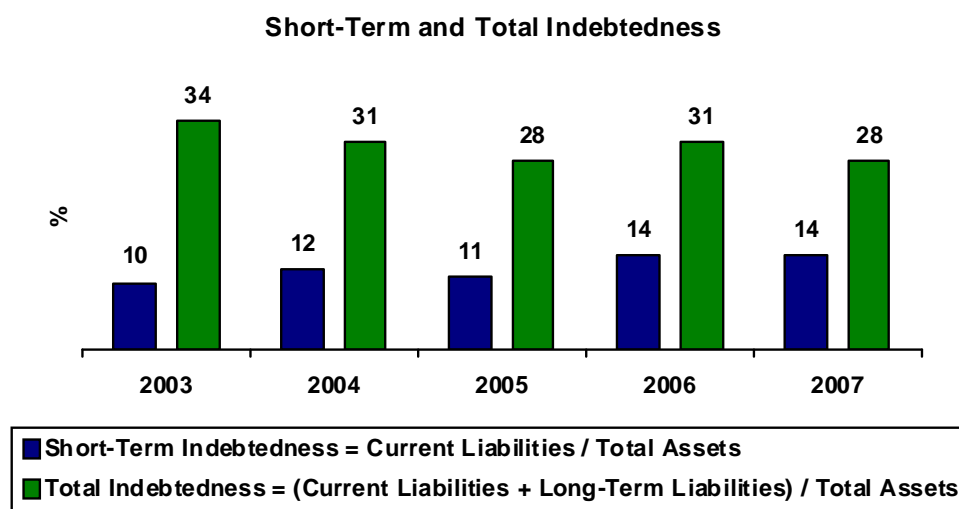


Economic and Financial Indicators

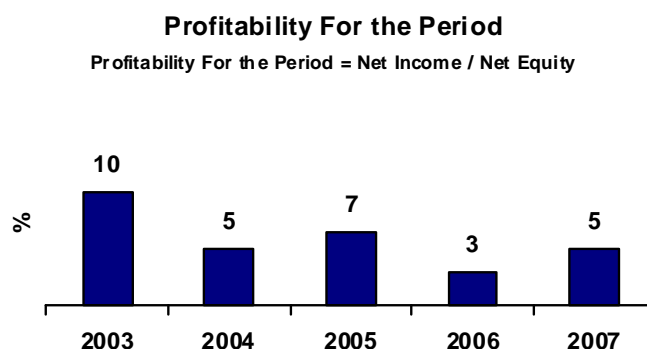
2007 saw a reduction in current ratio compared to the previous fiscal year due to credits written off and the constitution of provisions for doubtful debts over receivables. General liquidity was close to the level observed in previous years.



The reduced short-term and long-term indebtedness levels translate into opportunities for the Company additional leverage in order to face eventual requirements in its investment programs.



Increased Profitability levels, in 2007, were triggered by improved accounting practices that impacted fiscal year results.



Continuous Improvement and Innovation

Research and Development (R&D)

The R&D program aims at implementing a broader technological innovation policy related to product, process and management. In this manner, the Company contributes to building an interchange network among the different agents of the Brazilian Electric Sector, universities, research institutes, Government and suppliers, in order to assure the sustainability of the Sector. Therefore, it promotes the strengthening of national research and industry and the development of Brazilian educational institutions. In parallel fulfills a commitment to social responsibility and citizenship, by providing energy at lower price and higher quality.

FURNAS as a member of Cicop, contributes to the sharing of experiences among the companies of Eletrobrás Group, in an effort to reduce operational costs. In parallel, coordinates the Technology and Innovation Management task force.

As established by Laws No. 9.991/2000 and No. 10.848/2004, the Company annually provides 0.4% of its net operating revenue to the National Fund for Scientific and Technological Development (*Fundo Nacional de Desenvolvimento Científico e Tecnológico*) and an additional 0.4%, to the development of R&D internal projects, according to procedures established by Aneel. In addition, contributes institutionally for Cepel maintenance, and in return receives the right to participate in its research projects portfolio.

The research areas considered as strategic were: environmental management (carbon balance within the reservoirs), reliability assurance of generation and transmission installations, engineering technology (concrete, soils and equipments), experimental hydraulic and alternative energy sources.

As per Aneel ruling, since the beginning of the R&D program, 225 fully owned projects were benefited by R\$ 150 million, of which 72 projects have been concluded. Of the total volume invested, R\$ 89.43 million were contracted, R\$ 73.78 of which have been realized. In 2007, R\$ 14 million were invested in both fully owned projects and projects developed in partnerships.

Patents, Utilization Licenses and Technology Transfers

Innovations and Patents

The Company inventions, individual or through partnerships, are filed at the National Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial – INPI*), under two modalities: Invention Patent (PI), for innovations with a 20-years validity term; and Utility Model (MU), for provision or new form developed or introduced for known objects, with a 15-years validity term, counting from the filing date.

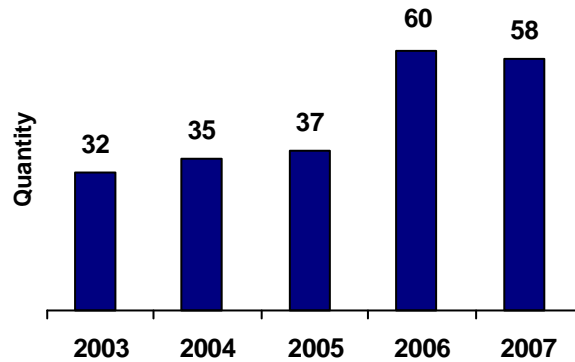
Until 2007, a total of 10 patent letters were issued (including 3 international ones); 3 patent requests are currently under analysis by INPI.

Development of Management Excellence

The Company began its Management Excellence trajectory when it built, in 1957, Furnas HPP, the first large-scale HPP in Brazil, aiming at accelerating the Country's urbanization process. Along its trajectory, FURNAS set up its Quality Management System, counting on the participation of its technical staff and control teams who helped the Company set breakthroughs in the Quality area. In 2003, the Executive Board of Directors authorized the adoption of Excellence Criteria of the National Foundation for Quality (*Fundação Nacional da Qualidade – FNQ*) as a management model. From then to 2006, FURNAS took seat as the anchor-company, in the state of Rio de Janeiro, of the Public Service Quality Program (*Programa da Qualidade no Serviço Público*), nowadays dubbed National Program for Public Management and Debureaucratization (*Programa Nacional de Gestão Pública e Desburocratização – Gespública*).

Units with Certified Management Systems

Currently, the Company has 58 units with certified management systems, involving approximately 1,600 employees, in norms NBR ISO 9001:2000 (Quality), and NBR ISO 14001:2004 (Environmental), as shown below. Note that from 2006 to 2007 two units did not reinstate their Management System certifications.

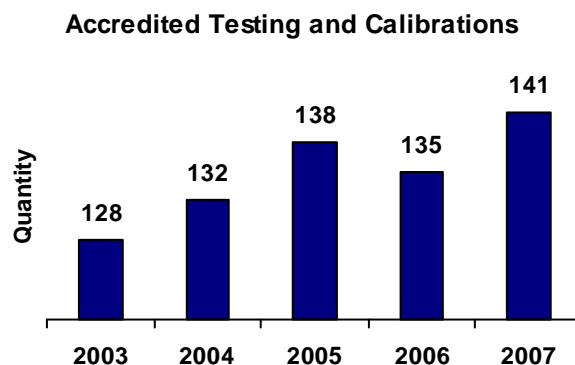


Accredited Laboratories

Accreditation grants the formal recognition regarding the competency of a laboratory or organization to develop specific tasks, according to the requisites established in NBR ISO/IEC 17025:2005 Norm – General Requisites for Test Laboratories and Calibration.

The Company has three laboratories accredited by National Institute of Metrology, Normalization and Industrial Quality (*Instituto Nacional de Metrologia, Normalização e Qualidade Industrial*), one that participates in the Brazilian Network of Test Laboratories (*Rede Brasileira de Laboratórios de Ensaio*) and two in the Brazilian Calibration Network (*Rede Brasileira de Calibração*), corresponding to nine accreditation areas, namely: dimensional; force, torque and hardness; mass; pressure; time and frequency; temperature; electricity; soil; and concrete, which are able to carry out 141 types of accredited services (60 types in calibration and 81 types of testing).

We present below the evolution in the number of accredited testing and calibration.



Relationship with Quality Management Entities

FURNAS maintains partnerships in the management area, as a member of FNQ, where it partakes in annual general meetings and in the Competitive Brazil Movement (*Movimento Brasil Competitivo – MBC*), where it is an active member of the Interested Parties Committee, setting guidelines for MBC to stimulate organizations to search a better competitiveness level.

Within Espública, under the discretion of the Ministry of Planning, Budget and Management, the Company partakes in the Supervising Committee of the National Public Planning Award (*Prêmio Nacional da Gestão Pública*) which analyzes implemented action-taking and defines related policies for future cycles, besides lending volunteering workforce to work as examiners of reports issued by management organizations.

The Brazilian Association for Technical Standards (*Associação Brasileira de Normas Técnicas – ABNT*) is the sponsor of the Brazilian Committee on Quality (*Comitê Brasileiro da Qualidade – CB 25*), participating actively in meetings with its Management and Consulting Councils and in the ISO (Committee for Conformity Assessment – CASCO and Technical Committee – TC 176), and in Study Commissions and Work Groups, which draw and revise foreign and domestic technical documents on standardization. In 2007, the Company participates in drawing and revising the following documents on standardization: ABNT NBR ISO/IEC 17021, ISO/IEC 17021-2, ABNT NBR ISO/IEC 17040, ISO/IEC 17043, ISO 9000, ISO 9001, ISO 9004, ABNT NBR ISO 10014 and ISO 10004.

CORPORATE GOVERNANCE

Since 2003, the Company has been improving its process of adhering to the corporate governance practices, required or recommended by the Federal Public Authorities, by external organizations and the market, expressed in the following documents, all of them published in the FURNAS' Organization Manual and available at the Intranet: By-Laws and Internal Regulations of the Company, of the Board of Directors, of the Supervisory Board and of the Board of Executive Officers, as well as the management policies.

At the beginning of each mandate, the Board of Executive Officers, the Board of Directors and the Supervisory Board members receive the Disclosure and Relevant Information Utilization Manual and the Securities Negotiation Policy Manual, issued by Eletrobrás, together with the agreement term, by which they are committed to direct their actions always abiding by such rules.

Corporate Structure

The Federal Government holds 52.45% of common and preferred shares of Eletrobrás, a public held company, with shares negotiated at Bovespa, Madrid, in Spain (*Latibex* index, a market segment that gathers the shares of Latin American companies negotiated in Euros), and in New York, United States (ADR programs, level 1).

As a subsidiary of Eletrobrás, FURNAS, a mix private/state owned company complies with SOX requisites, and provides information to back its Holding company stock listing at the ISE, of Bovespa, and at the DJSI, of New York Stock Exchange.

FURNAS Corporate Capital is of R\$ 3,194,000,000.00 (three billion, hundred and ninety four million Reais), with the following composition:

Shareholder	Common Share		Preferred Share	
	Quantity	%	Quantity	%
Eletrobrás	50,618,949,529	99.82	14,088,223,014	98.56
Others	91,699,471	0.18	205,174,986	1.44
Total	50,710,649,000	100.00	14,293,398,000	100.00

Corporate Governance Structure

It is represented by the relationships with Upper Management, composed by the Shareholders General Meeting, the Board of Directors, the Board of Executive Officers, the Supervisory Board and the Internal Audit, with an External Independent Audit.

Shareholders General Meeting

In addition to the cases anticipated by the Brazilian laws, the General Meeting will be held extraordinarily whenever the Board of Directors deems necessary, and specially to: alienate the Corporate Capital shares; proceed to go public; increase the corporate capital; issue debentures, titles or securities; promote capital spin-off, mergers or incorporation; and trade shares or other securities.

In 2007, OGM took place on April 25. Two EGM were held to deliberate on capital stock transference, election of Board of Directors members and remuneration of Executive Officers and Boards Members.

Board of Directors

The highest instance of Administration in FURNAS, it is a joint committee, composed by one Chairman and five Executive Officers, all of whom are shareholders, with a three-year period mandate, elected by the Annual General Meeting, and able to be reelected. One representative is appointed by Ministry of Planning, Budget and Management, and the remaining ones by MME; one of them is chosen to be the Board chairman, upon previous approval by the President of the Republic of all the names indicated. This collegiate met in 19 occasions during fiscal year to deliberate on strategic planning, expansion projects, new assets acquisition, among other issues.

Board of Executive Officers

Composed by a Chief Executive Officer and five Executive Officers, elected by the Board of Directors, with a three-year period mandate, to exercise management activities in the following areas, besides the CEO: Corporate Management; Finance; Engineering; Construction; and Systems Operation and Energy Commercialization. Regulatory and statutory decisions enacted by the Board of Executive Officers are made at weekly meetings and are the basis of the deliberative process regulating issues under the discretion of each executive area. In 2007, 55 meetings were held.

Supervisory Board

It is composed by three effective members and their respective substitutes, with a one year mandate, elected by the OGM, and able to be reelected. One of its effective members and his respective substitute are appointed by the Ministry of Finance, as the National Treasury representatives, and the remaining ones by MME, with previous approval by the President of the Republic. In 2007, 8 meetings were held to supervise action taking by Upper Management and to verify compliance with their legal and statutory obligations.

Internal Audit

It examines the management of the activities performed by the Company organizational units, with a view to analyzing their management actions and verifying their procedures, controls, computerized systems, registers, data and document files, along with their compliance with guidelines, internal regulatory acts and precepts of the legislation in effect.

Corporate Governance Practices

Support to Decision-Making Processes

The following support structures to the Decision-Making Process are communicated through a General Circular and are made available on the Intranet:

- internal rules: defined as a consequence of the work of the ruling representatives, assigned by each Executive Officer and approved by the Board of Executive Officers;
- temporary work groups and acting permanent Committees created by a Board of Executive Officers decision, to analyze and define actions related to the matters in which may exist to conflicts of interest;
- management corporate policies used as reference tools of the decision-making process by the Board of Executive Officers.
- permanent committees composed by representatives of each Executive Officer to give support to the Board of Executive Officers in fulfilling the management corporate policies.

Regarding risk controls, the Company applies the practices below:

- credit risk: a control kept by the Financial Officer, that tracks the Company evaluation by the risk classifying agencies;
- market risk: a control kept by the Office of Systems Operation and Energy Commercialization, by the Energy Commercialization Committee;
- operational risk: control of relevant risks, mitigated by insurance contracts or by self-insurance, according to the criteria defined by the Insurance Committee, based on losses probability, according to FURNAS contingency history and the economic and market viability of these two alternative modalities of asset protection.

Official Corporate Reports Process

The process of Rendering Accounts of 2007 base year, is comprised by the following practices:

- structuring of the contents in accordance with the information prerequisites referred to in the regulatory mark of the Electric Energy Sector and the main regulations pertaining to the shareholders, external audit organization, by Public Authorities, organizations that foster development and capital market;
- Annual Report issuance, in Portuguese, English and Spanish, with the same content of the Administration Report, as a rendering of accounts to the society;
- issuance of the Monthly Report for the Board of Directors and the Supervisory Board, as a support tool to their monthly meetings;
- issuance of the Monthly Report to the Board of Executive Officers (*Relatório Mensal da Diretoria Executiva*), with the objective to support Upper Management in the monthly communication of the planning and evaluation of the Company corporate performance evolution, through an analysis of the main indicators variation, within the following perspectives: shareholders; customers and market; sustainable development; internal processes; and learning.

Corporate Information Disclosure Process

Internet Page

Includes the Annual Report (in Portuguese, English and Spanish) and the Administration Report (in Portuguese and English) – and institutional publications such as: Statistical Annual Report, Electric Energy Market Reviews, Market and Economy Management Information, Social Balance and FURNAS Magazine.

In 2007, the site registered 102,450 visitors, or an average 280 visitors per day. Three hundred and fifty three updates or changes occurred, markedly on the Public Transference page, along with the disclosure of 233 corporate news.

FURNAS Magazine

Monthly publication of subjects related to the Company, with 10,000 magazines distributed freely. Its internal public is composed of all the employees, and externally it is distributed to all the federal, state, and municipal authorities, journalists, universities, research centers, companies of the electric sector, and registered individuals. It is available at the Company visiting areas, fairs, conferences and seminars. A special edition was issued to celebrate the Company's 50th anniversary covering the Company's history and business activities.

Institutional Advertising

In 2007, with the objective of making FURNAS brand visible and strengthen its image throughout the society and opinion makers' spheres, the Company has invested in institutional advertising, in newspapers and magazines of high circulation and radio stations of the main Brazilian cities. Foremost among them were the institutional videos concerning the bidding of Santo Antônio HPP, localized on the Madeira river, and other PAC related works. All the advertising pieces were previously approved by the Institutional Communication Sub Secretariat of the General Secretariat of the President Office (*Subsecretaria de Comunicação Institucional da Secretaria-Geral da Presidência da República*).

Corporate Videos

The Company has a collection of 1,500 institutional video devices, which show its foundation, actions in the generation, transmission, environment and social responsibility areas, aiming at divulging its corporate image.

Code of Ethics

The Company Code of Ethics and Standards of Professional Behavior aim at affirming the principles and values that guide its actions and ensuring the correctness and transparency in the conduction of institutional activities. The Code was also devised to:

- protect FURNAS physical and intellectual asset;
- prevent and manage conflict of interest situations;
- preserve the Company image and reputation;
- contribute to smooth the climate in internal and external relationships;

FURNAS Ethics Commission is responsible for publicizing and enforcing the ruling laid down by the Code of Ethics, acting as a consulting reference for the Executive Board, issuing recommendations for their appreciation of supposedly unethical practices reported.

It also acts as an agent of the Federal Public Administration, as a link between FURNAS and the Public Ethics Committee, integrating the Federal Government's Ethics Management System (*Sistema de Gestão da Ética do Poder Executivo Federal*), as determined by Decree No. 6.029, of February 1st, 2007.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

In order to extend the benefits brought on by electric energy generation, transmission and commercialization, an essential input for the development of nations, FURNAS is actively pursuing the commitment to social welfare and the due respect and care for the environment and the communities it services.

Statement of Value Added

It constitutes an important source of information since it presents the elements that allow an analysis of the company economic performance, pointing out wealth generation, as well as the social effects produced by its distribution.

	R\$ Million				
	2003	2004	2005	2006	2007
1. Generation of Value Added					
Revenue from Energy Sales and Services	4,973	4,952	5,486	5,738	5,563
Non-Operating Revenue	2	1	3	3	5
Less:					
Inputs					
Cost of Electric Energy Purchased	(1,926)	(1,981)	(2,099)	(2,111)	(2,248)
Material	(36)	(45)	(49)	(47)	(47)
Third Party services	(303)	(329)	(376)	(389)	(435)
Other Operating Costs	(321)	(428)	(560)	(671)	(833)
Other Non-Operating Costs	(18)	(11)	(30)	(14)	(10)
2. Gross Value Added	2,371	2,159	2,375	2,509	1,995
Reintegration Quotas	(484)	(496)	(509)	(517)	(532)
Provision Posted/Reversed	275	(28)	(8)	(235)	(446)
3. Net Value Added Generated	2,162	1,635	1,858	1,757	1,017
Financial Revenues (Transfers)	539	477	649	354	1,325
4. Value Added to be distributed	2,701	2,112	2,507	2,111	2,342
5. Distribution of Value Added					
Work Remuneration	263	323	427	488	592
Government (Taxes and Contribution)	552	436	585	374	495
Financial Charges and Monetary Variation	600	538	447	544	270
Employee's Share on Profits	34	41	48	55	62
Shareholder's Remuneration	334	185	241	108	165
Others	133	137	140	285	247
Retained Earnings	785	452	619	257	511
Total	2,701	2,112	2,507	2,111	2,342

Human Resources

Human Resources Policy

FURNAS shares with its employees the same principles on ethics, social responsibility and quality within its corporate realm and counts on their partaking in obtaining better results and maximizing them through an ongoing commitment with their work and diligence towards dully accomplishing the Company's mission, with the desired excellence standard.

Freedom to Join Unions

The Company enforces a freedom-to-join-union policy, through which employees may join the Union of their preference on the basis of their unionization or occupation. Nowadays, the Company deals with 14 different unions, represented by two entities (*Intersindical FURNAS* and *União Intersindical FURNAS*). Agreements stemming from the dealings negotiated abide 100% of unionized workers.

Employees' Profit Sharing

This policy foresees that employees are entitled to a share of the profits when they reach 6% of the fully-paid capital stock. The Board of Executive Officers establishes guidelines for the sharing of the participations, which cannot exceed 50% of the employee's annual remuneration. These guidelines take into account such factors as salary, time of service, assiduity, responsibility, family salary, efficiency, interest and diligence for the service.

Effective Workforce

In 2007, the increase of 9 employees observed in relation to the previous year was a consequence of 59 admissions hired through Public Examination No. 1/2002 and 50 dismissals during the same period.

Position	Quantity				
	2003	2004	2005 *	2006	2007
Managerial	309	327	350	359	362
Graduate Level	821	1,132	1,329	1,314	1,302
Technical and Operational Level	1,584	1,845	-	-	-
Technical Level	-	-	1,777	1,781	1,828
Administrative Support Level	711	933	-	-	-
Medium Support Level	-	-	772	744	710
Basic Level	-	-	353	327	332
Total	3,425	4,237	4,581	4,525	4,534

* From January 2005 on, positions denomination changed due to the new Career Plan.

Personnel Training and Development

In 2007, the Development Program was initiated in order to offer development pathways for employees to get involved so they may grow both professionally and personally. This Program, which is based on Performance Self-Assessment and on the Individual Development Plan, tracks ways to improve development, overcome expectations and point out career development in the Company's assessment processes, based on employees' strengths, duties and responsibilities.

In order to contribute to employees' professional and personal development, the Development Program offered in 2007, language courses, namely Spanish, English and Portuguese, and IT courses, benefiting 1,100 employees each month, in 13 different areas within the Company.

Additionally, based on the analysis of technical capabilities and knowledge, as foreseen on the Corporate Development Plan (*Plano de Desenvolvimento Corporativo*), several internal training programs were conducted in partnership with the Company's own departments and external entities.

The Company invested in the development of managerial trainings of 39 employees through a Master of Business Administration (MBA) of the Managerial Development Program (*Programa de Desenvolvimento Gerencial*), resulted from partnerships with *Cândido Mendes* University and the DataBrasil Institute, whose main objective is to encourage and support qualification in the latest management techniques.

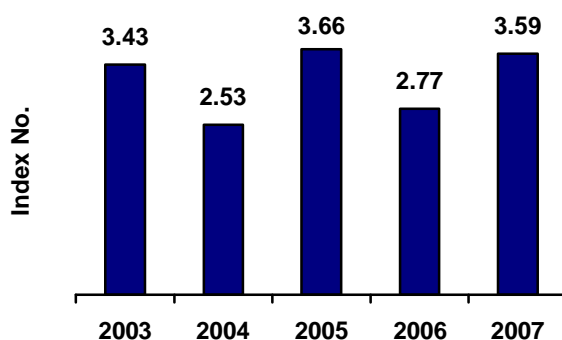
FURNAS sponsored APG-Amana-Key training to approximately 38 employees, with the objective of improving their own competencies, especially in what relates to Strategic Orientation and to Change Anticipation and Adaptation.

Moreover, in partnership with the State University of Rio de Janeiro (*Universidade do Estado do Rio de Janeiro*), it continued the MBA in Public Policies, attended by 30 employees, and in Project Management, allowing the training of 77 employees.

Accident Frequency Rate

The following chart shows the Accident Frequency Rate in the last five years.

This index results from dividing the number of accidents by the total of million person-hours exposed to risky situations.

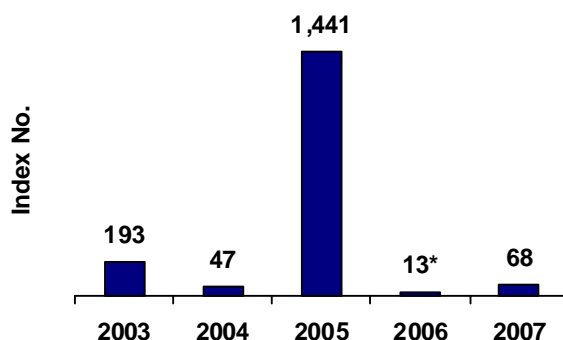


Accident Severity Rate

The Company has been seeking to establish a management methodology in its operating areas to improve safety measures in the workplace and industrial hygiene standards, thereby strengthening accident prevention and reduction, markedly in severe cases.

The Severity Rate of Labor Accidents in FURNAS had been presenting low values until 2004. In 2005, there was a significant increase due to two accidents with death casualties.

This index results from dividing the number of non-worked days by the total of million person-hours exposed to risky situations.



* The rate informed in 2006 report was 12. The change occurred because the information was not available at the closure of the year's report.

Social Responsibility

Corporate Citizenship and Social Responsibility Policy

FURNAS' social commitment is to contribute, in an innovative way, to the improvement of the human condition through the articulation among employees, consumers, communities, shareholders, suppliers, Electric Sector and Government, around initiatives that promote citizenship and human development, aiming at a more fair sustainable and solidary society, in harmony with nature.

Commitments and Partnerships

The Company participates in Committee of Organizations Against Hunger Pro Life (*Comitê de Entidades no Combate à Fome e pela Vida – Coep*), which it helped found in 1993. Coep plays an active role in social mobilization and articulation, fostering initiatives towards sustainable human and social development. Coep's members are over one thousand state-owned and private companies, organized in 27 state committees, and 29 municipal committees.

Coep joined two important initiatives started by the United Nations Organization towards social responsibility and sustainability: the Global Pact and the Eight Objectives of the Millenium. Since 2001, it has been a member of the Global Pact and several of the documents produced by the Company are on this program site to reassure its commitment with the ten principles of the Pact. The Objectives of the Millenium are FURNAS landmark for action-taking within the communities in the vicinities of its installations.

The commitment with promoting equal rights for men and women alike made the Company adhere to the "Gender Pro-Equity Program" (*Programa Pró-Eqüidade de Gênero*), an initiative of the Special Secretary for Policy-Fostering on Women's Rights of the Brazilian Presidency, which counts on a partnership with The United Nations Development Fund for Women and the World Trade Organization. The Gender Pro-Equity seal, awarded by the Special Secretary for Policy-Fostering on Women's Rights to organizations successful in innovative initiatives towards gender equity, crowns such commitment.

FURNAS also partakes actively in the “Dialogue Process for the Sustainable Development of Furnas Lake Outskirts” (*Diálogo de Concertação para o Desenvolvimento Sustentável no Entorno do Lago de Furnas*), an initiative of the General and the Economic and Social Development Secretaries, both under the discretion of the Brazilian Presidency. This dialogue process envisages integrated action-taking to revitalize Furnas HPP reservoir and its vicinities, covering 52 municipalities. In 2007, the Company contributed to drawing up and implementing the Participative Guiding Plans (*Planos Diretores Participativos*) in 50 of the 52 municipalities within the region through a Technical Cooperation Agreement made by the Ministry of Cities, the Regional Development and Urban Policy Secretariat, under the discretion of Minas Gerais Government, and the Association of Municipalities Lying within Furnas Lake Vicinities, mediated by Fórum-Lago and by Engineering and Architecture Regional Association Council.

Social Investment

The Company social investment seeks to provide opportunities for social inclusion, prioritizing the realization of sustainable projects and action-taking towards and independent life that may contribute to the autonomous development of communities and to the strengthening of partnerships.

In 2007, 118 social projects were brought into effect, all of which were based on: Schooling and Education, Citizenship and Civil Rights, Health and Nutrition, and Work and Income, benefiting over 117 thousand people, by promoting new opportunities for social inclusion, as outlined below:

Program	Quantity									
	Benefited People					Project by Program				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
Schooling and Education (<i>Educação e Formação</i>)	1,808	6,510	16,769	31,185	24,230	20	39	50	53	41
Citizenship and Civil Rights (<i>Cidadania e Direitos</i>)	2,690	29,681	53,306	82,626	57,532	2	10	37	37	43
Health and Nutrition (<i>Saúde e Nutrição</i>)	819	19.203	17.949	19.875	33,632	1	18	12	22	20
Work and Income (<i>Trabalho e Renda</i>)	1,600	175	2,924	406	1,658	2	4	9	5	14
Total	6,917	55,569	90,948	134,092	117,052	25	71	108	117	118

The development program for the communities in the vicinities of the Company’s installations has as its main guidelines the Eight Objectives of the Millenium, as well as the concept of territoriality as an area of intervention, and sustainability. The Company invests in generating alternatives for social development, promoting action-taking in partnership with the communities and local institutions, clearly defining responsibilities through a participative process. In 2007, four new communities joined the program, which has benefited 24 communities.

By means of a systematized institutional support, FURNAS contributed with financial resources or material for actions towards the improvement of the quality of life in the communities in its vicinities. In order to safeguard a transparent support process, the Company’s intranet page contains information on the criteria, procedures, and terms for addressing requests as well as the benefited institutions.

Cultural Projects

FURNAS understands that culture is an agent of social inclusion, so it has therefore developed the program “FURNAS Social and Cultural – Lightning on what is New” (*FURNAS Sociocultural – Iluminando o Novo*), to foster visual arts and social and cultural projects in the several areas where it acts.

Cultural Patronage Projects

The focus is to build the Brazilian cultural identity, and to valorize popular culture and social inclusion. In 2007, the Company sponsored 30 cultural projects, under the benefit of *Rouanet* Law, which subsidizes cultural projects. The projects were reviewed by an assessment commission of experts. The Company’s internet page provides information on the sponsored projects.

Cultural Area	Quantity			
	2004	2005	2006	2007
Scenic Arts	3	7	3	9
Integrated Arts	1	3	1	-
Fine Arts	1	3	2	3
Audiovisual/Movie Industry	4	9	13	6
Humanities	-	6	6	5
Music	3	4	9	4
Cultural Heritage	2	5	4	3
Total	14	37	38	30

FURNAS Cultural Space

Located in the Company’s Central Office, in Rio de Janeiro, this cultural space houses paint, engraving and photography exhibits, as well as video events, and sculptures of artists new to the market, public and media alike, revealing new talents. In 2007, eight exhibits took place, attracting 4,600 people.

FURNAS Social and Cultural Breeding Program

This program was established in order to provide education for artists from low-income communities, and from public art schools, as well as to give support to cultural organization projects. The Breeding Program for artists lasts twelve months or four months in the case of cultural organization projects. In this meantime, artists are given theoretical and practical experience in top educational partners’ institutions. At the end of the breeding term, innovative artistic products are to be made feasible, with the financial support from FURNAS. In 2007, the program selected ten individual talents and ten projects.

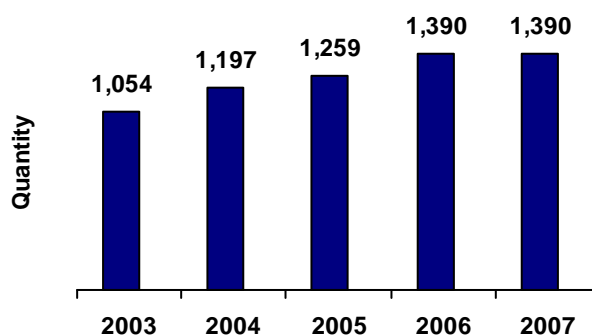
Partnerships in Social and Cultural Projects – Culture in Regional Areas

With the intention to promote cultural activities in the vicinities of the Company’s installations, eight social and cultural projects have been developed, rallying in over 1,700 people, 80% of whom children and youngsters, in nine municipalities in the states of Mato Grosso, Minas Gerais, Rio de Janeiro and São Paulo.

Corporate Volunteering

Volunteering is deemed strategic for the Company as it not only strengthens action-taking within Social Responsibility, but also gives importance to the partnerships it holds with its employees and society as a whole. It has been organizing and fostering the FURNAS Volunteer Work Program (*Programa Voluntário FURNAS em Ação*) since 2002, helping to develop autonomous and responsible citizenship with its employees and fight poverty and social exclusion.

Evolution of Registered Volunteers



Awards

The following awards were granted for commitment social actions:

- “Rio de Janeiro Chamber of Commerce and Industry 2007– 30 years – A Carioca Attitude Award” (*Câmara de Comércio e Indústria do Estado do Rio de Janeiro 2007 – 30 Anos – Atitude Carioca*) which acknowledges those companies and people in the state of Rio de Janeiro who were most successful in aiding economic and social development. FURNAS was first placed in the Social and Environmental Responsibility category with the project “Community Integration Nucleus” (*Núcleos de Integração Comunitária*);
- “Citizen Corporation Certificate” (*Certificado de Empresa Cidadã*), granted to the companies that elaborate the Social Balance Sheet in compliance with the rules laid down by Rio de Janeiro State Accounting Regional Council (*Conselho Regional de Contabilidade do Estado do Rio de Janeiro*), State of Rio de Janeiro Industries Federation (*Federação das Indústrias do Estado do Rio de Janeiro*), and State of Rio de Janeiro Trade Federation (*Federação do Comércio do Estado do Rio de Janeiro*).

Environmental Responsibility

Environmental Policy

In March 1998, the Board of Executive Officers approved the Company’s Environmental Policy. As an electric energy generation and transmission company, which is a basic input for economic and social development, FURNAS acknowledges that its activities may interfere with the environment, so it is committed to an environmentally-friendly action-taking policy.

The implementation of this policy brought benefits regarding sustainable development, not only due to the Board's formal commitment, but also because of the awareness raised in the Company towards working with the due care for the environment, the disclosure of such policy, the compliance with NBR ISO 14001:2004 rules, the adherence to Eletrobrás System Environmental Policy, and society demands.

Water Resource Policy

This policy safeguarding corporate sustainability has been effective since March 2007 and seeks to establish guiding principles for the Company to choose the best criteria towards the usage of water resources in accordance with National Policy on Water Resources and FURNAS related policies.

Environmental Indicators

The five indicators below summarize the complexity associated with the regularization, implementation, and operation of energy generation and transmission activities and allow for checking the evolution of the Company's performance regarding environmental issues. The information covers the period from 2003 to 2007.

Environmental Licensing

The criteria for considering a given project as "licensed" was that it had received at least one of the three modes of environmental licenses established by National Environmental System (*Sistema Nacional do Meio Ambiente – Sisnama*): previous, installation, or operation license.

The indicator represents the installed nominal capacity in the licensed hydroelectric and thermoelectric power plants (8,110MW) and the natural power of the Company's transmission lines, also licensed (15,717 MW), with the tension varying from 138 to 750 kV. The increase in the installed nominal capacity resulted from the inclusion of Santo Antônio HPP, which will be built in partnership with the private sector, and of Tijuco Preto Substation.

Accumulated until the Year	Generation	Licensed MW
		Transmission
2003	2,490	14,732
2004	3,292	15,146
2005	3,673	15,274
2006	4,960	15,274
2007	8,110	15,717

Area of Monitored Water Surface

This area encompasses 5,695 km² of water surface of the reservoirs of 11 hydroelectric plants in operation, which are monitored periodically in terms of limnological parameters and water quality, as well as the composition of the ichthyofauna. As no reservoirs were filled during 2007, there was no change in the monitored water surface area.

Extension of Protected Areas

Brazilian environmental legislation related to environmental compensation of industrial projects is in force since 1987, with FURNAS being one of the national pioneer companies to abide by legislation, upon the implementation of Serra da Mesa and Corumbá HPP, whose construction began in the mid-80's. Since then, the Company has contributed significantly towards environmental conservation.

As an environmental compensation for the implementation of its project, FURNAS has invested in the consolidation of conservation units instituted by the Public Administration, such as: national, state and municipal parks, biological reserves, ecological stations and environmental protection areas, as well as native Brazilian reserves. This is a significant investment for the conservation of the biodiversity of Brazilian ecosystems, in which the Company has acted (Atlantic Rain Forest and Cerrado), comprising an area of 1,260 thousand hectares (ha). The 30 thousand ha in excess over 2006 is due to the inclusion of protected areas of Itatiaia National Park, Cicuta Forest, Curió de Paracambi Municipal Park, and Fazenda Santa Cecília do Ingá Municipal National Park, all of which related to Cachoeira Paulista – Adrianópolis III TL.

Accumulated until the Year	Protected Area (ha)
2003	1,193,179
2004	1,193,232
2005	1,226,577
2006	1,226,577
2007	1,257,029

Environmental Education Actions

Since 2000, FURNAS has invested, not only in terms of social communication with the populations affected by its projects, but also formally, in environmental education, in partnerships through state and municipal departments of education and with non-governmental organizations. In the period 2003-2007, 126,062 students were given the chance to attend environmental educational programs distributed in 126 municipal districts located in the areas under the influence of the Company's transmission lines and by Manso HPP. The growth observed in 2007 refers to the inclusion of Retiro Baixo HPP, as follows:

Accumulated until the Year	Student Educated	Quantity
		Municipal District
2003	38,247	52
2004	61,266	92
2005	109,857	122
2006	110,337	122
2007	126,062	126

Archeological Sites Identified and Studied

The number of pre-historic and historic archeological sites, which have been identified / prospected / mapped and studied / recovered / researched during the construction of FURNAS generation and transmission projects reached a total of 1,304 sites.

In 2007, 10 new sites were identified, of which 2 are being studied.

Accumulated until the Year	Site Identified	Quantity
		Site Studied
2003	602	556
2004	657	580
2005	674	606
2006	674	618
2007	684 (1)	620 (2)
Total (1+2)		1,304

Energy Conservation

In relation to energy conservation studies and programs, 77 projects were presented with their respective indicators and goals, developed in the states of Rio de Janeiro, São Paulo, Paraná, Minas Gerais, Goiás, Espírito Santo, and in the Federal District in partnerships with Eletrobrás, secretariats of education, energy, environment, and culture, civil defense bodies, public parks, electric energy concessionaries, major newspapers, commercial and industrial associations, zoological societies and universities, involving federal, state and municipal spheres.

Educational activities were carried out on the rational use of electric energy and water, involving about 500 thousand people, out of which the following projects are worth mentioning:

- “FURNAS / Procel in Schools – The Mônica Gang and the Electric Energy” (*FURNAS / Procel nas Escolas – A Turma da Mônica e a Energia Elétrica*), promoted the training of 53,568 youngsters and adults;
- “The Nature of the Landscape – Energy: a Life Resource” (*A Natureza da Paisagem – Energia: Recurso da Vida*), qualifying 3,602 teachers and 324 thousand students of 83 municipal districts affected by FURNAS’ projects, on the issue of fighting energy waste;
- “Education for Conservation” (*Educação para Conservação*), mobilizing, through partnerships with public parks, 7,900 people for the rational use of electric energy and water, through lectures and ecological tracking;
- performance of 180 events to motivate students and the general public, involving 145 thousand people, which have participated in activities, such as: ludic-pedagogical activities, drama, games, showing how the individual and collective actions can influence and mobilize society, referring to the issues regarding fighting against energy and water waste;
- “Energy Circuit” (*Circuito da Energia*), reached 21,014 students and counted with the participation of 591 teachers, aiming to guide students to develop concepts of electric energy and its rational use, in a ludic approach, based on interactive and diversified experiences;
- advertisement of the subject “Conservation of Energy” (*Conservação de Energia*), with 51 insertions in internal bulletins and 36 insertions in the external media – such as radio, television, internet and newspapers.

Additionally, the following technical activities were developed:

- performance of 28 studies on energy efficiency in public schools and buildings, in the states where the Company has installations, with a potential economy of 4.16 GWh/year;
- installation of underground electrical transmission grid and public illumination system at the Historical Center of the colonial town of Paraty, in Rio de Janeiro.

It is also worth mentioning that the awareness drive towards fighting water waste continued being developed in several of FURNAS installations.

Social and Environmental Information

	2007			2006		
1. Wealth Generation and Distribution	R\$ Thousand			R\$ Thousand		
Total Value Added	2,342,559			2,111,140		
Distribution of Value Added	21.1% government	27.9% employees		17.8% government	25.7% employees	
The Value Added Demonstrative (DVA) is fully presented in the Financial Statements	7.1% shareholders	43.9% financiers		5.1% shareholders	51.4% financiers	
2. HUMAN RESOURCES	2007			2006		
2.1. Remuneration						
Gross Payroll (GP) (R\$ thousand)	767,315			672,660		
- Employees (R\$ thousand)	763,844			668,657		
- Managers (R\$ thousand)	3,471			4,003		
Higher and lower remuneration ratio:						
- Employees (%)	18.8			17.1		
- Managers (%)	1			1		
2.2. Benefit Granted	R\$ Thousand	% over GP	% over NR	R\$ Thousand	% over GP	% over NR
Payroll charges	148,087	19.30	2.90	135,974	20.21	2.60
Food	33,532	4.37	0.66	31,982	4.76	0.61
Transportation	2,114	0.28	0.04	2,960	0.44	0.06
Private social security	67,557	8.80	1.32	62,014	9.22	1.19
Health	70,185	9.15	1.38	64,052	9.52	1.23
Safety and industrial health	5,268	0.69	0.10	5,059	0.75	0.10
Education	1,717	0.22	0.03	1,325	0.20	0.03
Culture	2,832	0.37	0.06	2,032	0.30	0.04
Training and professional development	21,357	2.78	0.42	17,300	2.57	0.33
Day-care centers or day-care assistance	697	0.09	0.01	675	0.10	0.01
Profit or results sharing	61,574	8.02	1.21	55,289	8.22	1.06
Total	414,920	54.07	8.13	378,662	56.29	7.26
2.3. Staff Indicators	2007			2006		
Total number of employees	4,534			4,525		
Number of admissions	59			156		
Number of dismissals	50			212		
Number of trainees	694			519		
Number of employees with special needs	251 *			230		
Number of outsourced employees	1,857			1,923		
Number of employees according to sex:						
- Men	3,929			3,925		
- Women	605			600		
Number of employees according to age:						
- Under 18 years old	0			0		
- From 18 to 35	789			855		
- From 36 to 60	3,618			3,573		
- Above 60	127			97		
Number of employees according to educational level:						
- Illiterate	0			0		
- Basic Level	362			327		
- Medium Level	671			755		
- Technical Level	1,210			1,791		
- Graduate Level	1,574			956		
- Post graduate Level	717			696		
Managerial positions according to sex (%):						
- Men	88.95			88.90		
- Women	11.05			11.10		

2.4. Contingencies and Labor Liabilities	2007	2006
No. of labor lawsuits brought against the Company **	543	907
No. of labor lawsuits considered valid ***	3	1
No. of labor lawsuits considered invalid ****	34	73
Total amount of compensations and fines paid due to legal decisions *****	25,052	15,223

3. Interacting with Society	R\$ Thousand	% over OR	% over NR	R\$ Thousand	% over OR	% over NR
3.1. Relationship with the Community						
Total investments in:						
Education	6,972	0.68	0.14	6,464	1.16	0.13
Culture	5,179	0.51	0.10	11,170	2.00	0.21
Health and infrastructure	6,321	0.62	0.12	12,047	2.15	0.23
Sports and Leisure	271	0.03	0.01	0	0.00	0.00
Food	3,079	0.30	0.06	2,023	0.36	0.04
Work and revenue generation	573	0.06	0.01	269	0.05	0.01
Families resettlement	4,024	0.39	0.08	669	0.12	0.01
Total Investments	26,419	2.59	0.52	32,642	5.84	0.63
Taxes (without payroll charges)	494,922	48.52	9.69	374,495	66.94	7.17
Financial compensation for the use of hydric resources	159,404	15.62	3.12	158,849	28.39	3.04
Total – Relationship with the Community	680,745	66.73	13.33	565,986	101.17	10.84

3.2. Interaction with Suppliers

It is mandatory that the suppliers declare not to use personnel under 18 years old for night shifts, hazardous or unhealthy work and that they do not hire people under 16 years old. And it is also required that they mention in case they have people 14 years old and above as apprentices.

4. Interaction with the Environment	R\$ Thousand	% over OR	% over NR	R\$ Thousand	% over OR	% over NR
Investments and expenditures with maintenance in the operational processes to improve the environment	11,287	1.11	0.22	5,154	0.92	0.10
Investments and expenditures with preserving and/or recovering degraded environments	18,576	1.82	0.36	17,374	3.11	0.33
Investments and expenditures with environmental education to the Company employees, outsourced and free lance personnel, and managers	1	0.00	0.00	15	0.00	0.00
Investments and expenditures with environmental education to the community	2,421	0.24	0.05	1,347	0.24	0.03
Investments and expenditures with other environmental projects	2,605	0.25	0.05	1,018	0.18	0.02
Number of environmental, administrative and legal suits brought against the Company	0	0.00	0.00	-	0.00	0.00
Amount of penalties and compensations related to environmental issues, defined in the administrative and/or judicial spheres	0	0.00	0.00	-	0.00	0.00
Environmental liabilities and contingencies	0	0.00	0.00	-	0.00	0.00
Total Interaction with the Environment	34,890	3.42	0.68	24,908	4.45	0.47

5. Other Information	2007	2006
Net Operating Revenue (NR)	5,105,173	5,219,183
Operating Results (OR)	1,020,110	559,448

* Refers to 19 effective employees and 232 professionals contractually bound to the Brazilian Institute for the Rights of the Disabled Person (*Instituto Brasileiro de Defesa dos Direitos da Pessoa Portadora de Deficiência*).

** Number of lawsuits initiated between 2006 and 2007.

*** Number of valid lawsuits no matter when legal action was initiated.

**** Number of invalid lawsuits no matter when legal action was initiated.

***** Amounts concerning compensation and fines paid between 2006 and 2007, no matter when legal action was initiated.

II – INTERNAL CONTROL

The Internal Controls in Public Administration, according to the concept used by Federal Accounts Court/General Federal Controlling Department (*Tribunal de Contas da União/Controladoria-Geral da União – TCU/CGU*), is composed by a set of interrelated plans, activities, methods, indicators and procedures, used to ensure the compliance with the administrative acts and to achieve the objectives and targets established.

The Process of Rendering Accounts follows the normative instructions issued by TCU/CGU, showing the mitigation of possible risks to which the Company may be submitted, the identification of the materiality of the objective elements related to its assets and goods, and the transparency of its acts and performance, in accordance with FURNAS relevance as a leading actor in the Electric Sector.

Evaluation of Controls and Procedures by the Internal Audit

The Internal Audit, directly subordinated to the Board of Directors, acts preventively in matters related to internal controls, with the support of the Board of Directors and Supervisory Board monthly meetings, and by the Board of Executive Officers weekly meetings.

In the year 2007, 127 procedures were carried out abiding by the Internal Audit Activities Annual Plan (*Plano Anual de Atividades de Auditoria Interna – Paint*), providing, among other advantages, the improvement of internal regulations, and consequently, the strengthening of internal controls as well as the compliance with the legislation in force and the recovery of values.

Paint is developed from the risk matrix, which identifies processes requiring continuous monitoring and analysis of associated internal controls.

In the elaboration of the risk matrix, the operational characteristics of FURNAS are considered, with emphasis on the following indicators: materiality, relevance, vulnerability, risk, previous critical occurrences, legislation and image.

In 2007, the Company gave continuity to supporting the compliance to the SOX Law, Section 404, and prompted by Eletrobrás, issued the Report on the Study and Assessment of Accounting and Internal Control Systems (*Relatório sobre o Estudo e Avaliação dos Sistemas Contábil e de Controles Internos*) in association with the Financial Statements for the fiscal year ended 2006. This report was produced by PricewaterhouseCoopers Independent Auditors, considering the relevant processes within the Company.

The issues concerning audit works in 2007 were reported to the respective managers for due diligence and action-taking towards streamlining processes and improvements.

Additionally, the Internal Audit took part actively in activities supporting the compliance to the SOX Law by prompting employees to follow up the activities conducted by the consulting agency and by the independent auditor.

In its attempt to adopt the best market practices, the Internal Audit participated in seminars, congresses, specialization courses and interchange (benchmarking) with other internal audits, risk areas, and other areas of interest.

Opinion of Supervisory Board

The Supervisory Board, in compliance with its legal and statutory attributions, have issued two opinions in the year of 2007, as follows: the first one, after analyzing the Administration Report and the Financial Statements of the 2006 Fiscal Year; the second one, referring to the Company's budget for the 2007 Fiscal year. Both opinions were favorable, with the recommendation of approval to the shareholders in the corresponding OGM.